# CHAPTER 2

## ETHICS: INDIAN AND WORLD PERSPECTIVE

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 PROLOGUE</td>
<td>85</td>
</tr>
<tr>
<td>2.2 THE INDIAN EXPERIENCE</td>
<td>85</td>
</tr>
<tr>
<td>2.3 THE AMERICAN EXPERIENCE</td>
<td>100</td>
</tr>
<tr>
<td>2.4 THE EUROPEAN EXPERIENCE</td>
<td>111</td>
</tr>
<tr>
<td>2.5 EMERGING DISCIPLINES OF ETHICS</td>
<td>114</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>134</td>
</tr>
</tbody>
</table>
2.1 PROLOGUE

The modern industrial era is characterized by several thousands of big corporations. Such behemoths in both private and public sector bestride the earth producing a large proportion of all the goods and services that we consume. Thus, externally they present a commanding appearance, control vast resources, and employ millions of workers besides influencing our social, economic, political and even personal lives. Their computers with unmatched ability to plan and to execute projects on a grand scale in make them unshakably powerful and permanent. At a time when most of us feel powerless. They appear to dominate our destinies.

The world economy is passing through tumultuous changes. It is moving from controlled economy to decentralized market economy. Most of the decisions are based on world’s market forces. The economies world over are opening their respective markets on front of globalization. This in particular is helpful to know the strengths, weaknesses, opportunities and threats. Since the economies world over has opened up, has resulted in to bigger marketplace and competition, which in turn requires the strict adherence to ethics. It has become important for the leaders, technocrats, entrepreneurs and managers to have deep knowledge of ethical dimensions in world over. The concept of ethics is not new to the world. If one closely observes the concept has become part of management for nearly three decades. One will realize that it is deeply rooted and is also wide in its context. To understand better researcher has tried to explain ethical experiences in different part of the world and has detailed the emerging concepts in ethics.

2.2 THE INDIAN EXPERIENCE

In India the concept of ethics is mainly reviewed from the aspect of religion as compared to “Concept of Management” in today’s era. Since the inception of business in India, believed and followed the path least taken by the west, which is of welfare
and social justice. To define the origin of the ethics in Indian soil is difficult as no precise data is available, but one can assume the same while going through the precious ancient Indian scriptures. India is always known for its rich culture and literatures it has, hence to formulate a new management philosophy and system, we have to go back to the India’s rich history. India has the Upanishads, the Bhagvat Geeta, the Puranas the Dharmasastras and various other texts which expound the views. To trace the early beginning of the concept of ethics from Indian perspective, researcher has categorized the data in different period.

2.2.1 THE PERIOD OF VEDAS AND UPANISHADS

The Vedic Period or the Vedic Age refers to that time period when the Vedic Sanskrit texts were composed in India. The society that emerged during that time is known as the Vedic Period, or the Vedic Age, Civilization. The Vedic Civilization flourished between the 1500 BC and 500 BC on the Indo-Gangetic Plains of the Indian subcontinent. This civilization laid down the foundation of Hinduism as well as the associated Indian culture.

The first Sanskrit shlok of the Ishopanishad epitomized the meaning of culture of India. The shloka explains that the whole universe and all those living and existing in it are residence to God. Get pleasure from good and right things in life by giving out and sharing things with others. Do not yearn for the ownership of others.

The ancient Indian literatures speak about the vices things and moral codes in life. Lord Manu has given ten qualities of man to execute, these are respect for others and their belongings, contentment, purity, self control, returning good for evil, forgiveness, calmness, knowledge of supreme soul, honesty and sacrifice.

The moral code of Hinduism contains those elements common to the human race. It condemns lying, stealing, murder, injury, adultery, slander, gambling and drunkenness.¹
The great Hindu literature Rig Veda explains that “Whether in heaven or on earth let the truth be my guide”.\(^2\) Atharvaveda (xvi 6, 1) also talks about “good action alone lives for hundred years, there can be no better path than this. Let your actions, however not taint your soul, (or produced attachment to the consequences)”\(^3\)

**Ag nenaya Supatha raye Asman**

Yajurveda (5, 36) reads which means “direct our energies to the path of righteousness.”\(^4\)

On Indian Culture Jawaharlal Nehru \(^5\) commented that the central idea of old Indian civilization, or Indo-Aryana culture, was that ‘Dharma’, which was something much more than religion or creed. It was a conception of obligations, of the discharge of one’s own duties and to oneself and to the universe and all it contained”

One can even find ethical aspects from the holly book Bhagvat Geeta. Bhagvat Geeta consists of teachings and true meaning of life taught by Lord Krishna to the Arjun in a battle called Mahabharata, where Arjun confronted with one of the great crises of his life and was unable to bear stress and strain, collapsed in the battle filed. Lord Shri Krishna teaches him the Geeta.

The teaching of Mahabharata has been summed up in the phrase “Thou shall not do to others what is disagreeable to thyself”. There is an emphasis on social welfare and this is noteworthy. It says: ‘whatever is not conducive to Social welfare or what we are likely to be ashamed of, never do’. It lays stress on ethical and moral principles in statecraft and in the life generally. Without this foundation of Dharma, there is no true happiness and society cannot hold together. The aim is social welfare, not the welfare of particular group only but of the whole world.\(^6\)

One of the shloka of Geeta explains that man should not turn face or exhibit actions like lying and others to surpass the difficult and challenging situations, rather “Intelligent person will never grieve a challenging situation because the challenge is the handy opportunity to know who you are and what your energies are”. If you grieve, it will make you impotent and disabled. Face the challenging situations with
smiling face. Even Swami Vivekananda says “Face the Beast”, where in he connotes beast as a problem.

Non reaction is another lesson thought in Bhagwat Geeta. Lord Krishna says “An individual’s only act is to work and pray with devotion. One should not work for the sake of results, rather devote the fruits or results of work and action to god, may it be success or failure, good or bad.” Geeta explains that ‘work has to become a means of discovering yourself. The aim is to work with the soul. The soul is infinite. Infinite ideas can come out of it. The same thought is explained beautifully by Swami Vivekananda. He says the power of attachment and detachment should be of same magnitude. Explains man’s deeds should be with great attachment but should detach itself with its results.

Bhagwat Geeta also talks about ‘work culture’. A cosmic example of Yajna culture is the ‘churning of the milks ocean’. It was an attempt to reinvent and recreate a society. According to Yajnas sprit ‘Everybody must come together in work and whatever is produced must be shared but the wealth should remain under the care of good and noble people.

2.2.2 PERIOD OF GREAT RULERS AND DYNASTIES

1. CHANDRAGUPTA MAURYA

In the leadership of Chandragupta Maurya, India was the golden bird as its growth was phenomenon. The empire of Chandragupta Maurya said to be an autocratic state inflicted by pervasive and rigid bureaucracy with recurrent references of surveillance. In history and even today Chandragupta is always remembered for his statement ship and generosity. His success was largely due to his strict adherence to the principle of statecraft.

The known policy maker of all times Chanakya was the brain behind the rise of Chandragupta dynasty. Chanakya in his treatise “The Arthshastra” gave a detailed account of political economy. It deals at length with principle of statecraft besides
shedding light on measures to be taken to control the affairs of the business. Specially, it dealt with measures to be taken to check unfair marketing and tax evasion practices.

Jawaharlal Nehru remarks on Chandragupta era. “Agriculture was regulated in many ways, so were the rates of interest. The regulation and periodical inspection took places of food, markets, manufactures, slaughterhouses, cattle rising, water rights, sports, courtesans and drinking saloons. Weights and measures were standardized. The cornering and adulteration of food stuff were rigorously punished. If rich people were found guilty of embezzlement or profiting from national calamity, their property was confiscated. Sanitation and hospitals were provided and there was a medical man at chief centers. The chief gave relief to widows, orphans, the sick and the infant. Famine relief was a special care of the state and half the state warehouses were always kept in reverse for times of scarcity of famine. The king, at the time of his coronation, had to take oath of service of people – ‘May I be deprived of heaven, of life, and of offering if a oppress you.’ In the happiness of his subjects lies his happiness. Whatsoever pleases himself he shall consider as not good, but whatever pleases his subjects, he shall consider as good. If a king is energetic his subjects will be equally energetic and if a king is misbehaved, his people had the right to remove him and put another one in his place.”

2. KING ASHOKA

The King Ashoka was an emperor known for his philanthropic acts. After the great war of Kalinga, he gave a new dimension of political philosophy to his empire by spreading the light of Buddhism which is greatly concerned with the welfare of the people. He labored hard at public business and declared that “At all times and at all places, weather I am doing or in the ladies department, in my bedroom or in my closet, in my carriage or in my Palace’s business. At any hour and at any place of work I must work for the common welfare.”

He was a great follower of Buddhism and was instrumental in spreading it all over India. Buddhism gave the ‘Nobel Eight fold path,’ consisting of
a) Right views
b) Right aspirations
c) Right Speech
d) Right action
e) Right mode of livelihood
f) Right contemplation or absorption.

Prohibitions are set before the Buddhists. ‘do not kill, steal, commit adultery, lie or drink intoxicants.’ Self control and self purifications are stressed.

At the same time even Chinese contributed to Buddhism. The important contributions were of Lao-Tzu and Confucius. Lao Tzu said, “Only when men return to their original nature and to kindness, wisdom, prosperity and righteousness will they be contended and happy.” In Confucian ethics, the central point is that of community and social prosperity, the basic institution is family or the community with the family at the center. The Chinese ethics emphasizes community and social solidarity.

The growth of the Mugal Empire in the country, lead to the change in economic and political area. One will find numerous examples of emperors who served for the causes of welfare for their people. Here in, a brief discussion is given about the activities of such rules and regulating business and political environment for the betterment of public life.

As the Mugal emperors followed Islam, their policy of statecraft was largely based on tenants of Islam. In Islam, morality has a distinctly religious background. Wrong doing is a breach of law of Allah. Islam encourages almsgiving hospitality, truthfulness, humanity to slaves, and justice for orphans, and abstinence from the use of alcoholic beverages. There are legislations against suicide, inhumanity, robbery, gambling, slander, perjury, usury, and sale and consumption of intoxicating drinks.
3. ALLAH-UD-DIN-KHILJI

Allah-ud-din-khilji initiated many changes in the marketing practices by lowering the prices of essential commodities. Particularly for people and soldier in than Delhi, prices were fixed including silk, horses, cattle, slaves, bread, vegetables, sheds and many more. The goods were supposed to be sold at the scheduled given prices. All the merchants had to get them-selves registered in the office of Inspector General of Market. Business laws were strictly enforced and offenders were punished. It is interesting to note that both corporal and capital punishment were imposed on hoarders, adulterators and tax evaders.

4. CHHATRAPATI SHIVAJI

Chatrapati Shivaji Maharaj was the founder of the Maratha Empire in western India. He is considered to be one of the greatest warriors of his time and even today, stories of his exploits are narrated as a part of the folklore. Maharaj Shivaji is known for his strong religious and warrior code of ethics, exemplary character and deep seated and uncompromising spiritual values. He always offered protection to houses of worship, non-combatants, women and children. He always showed respect, defended and protected places of worship of all denominations and religions.

Shivaji was once offered war booty, an extremely beautiful young lady, by an uninformed Maratha captain. She was the daughter-in-law of a defeated Muslim Amir (local ruler) of Kalyan, Maharashtra. Shivaji was reported to have told the lady that her beauty was mesmerizing and that if his mother was as beautiful as her, he would have been beautiful as well. He told her to go back to her family in peace, unmolested and under his protection. His behavior was noted by those around him, to be always of the highest moral caliber. He clearly and unambiguously embodied the virtues and ideals of a true nobleman.12

He did not spend any resources on projects designed for self-aggrandizement or vanity; instead he was propelled by his sense of Dharma (sacred duty) to his people and country which lead him to directly challenge the dangerous, powerful and oppressive rule of the Adilshah, Nizams and the Mughals. His legacy is
heroism, selflessness, freedom, independence, brotherhood and unwavering courage, and as such he is a great role model for the ages.  

Shivaji struck a deep chord with his followers and the community. And the high level of admiration and respect he earned from his followers and subjects sets him apart from most other Indian kings or chieftains in the recorded Indian history. Even today he is venerated in India and especially in the state of Maharashtra with awe and admiration and is viewed as a hero of epic proportions.

Swami Vivekananda portrayed Chatrapati Shivaji Maharaja as one of the greatest national saviors who emancipated our society and our Dharma when they were faced with the threat of total destruction. He was a peerless hero, a pious and God-fearing king and verily a manifestation of all the virtues of a born leader of men described in our ancient scriptures. He also embodied the deathless spirit of our land and stood as the light of hope for our future.

5. SHER-SHAH-SURI

Sher-shah-Suri was known for its sense of public welfare and was considered to be a benevolent ruler. Commenting on the Shershah political philosophy, W. Crooke remarked that, he was the first who attempted to find an Indian empire broadly based upon people’s will. He was a genius to see that the government must be popularized, that the king must govern for the benefit of his subjects, that the Hindus must be conciliated by a policy of justice and toleration.

Shershah’s charity and endowment department was put directly under supervision. He was a generous ruler who exercised power for the benefit of the people. He had a great solicitude for peasantry as he gave standing instructions to his officers to be lenient while assessment and be strict at the time of collection of revenue. He never failed to punish those who oppressed the peasantry. He also strengthened the trade and commerce. There was a strict enforcement of law for traders who indulged in the malpractices. Weights and measures laws were also enacted.
6. **THE KING AKBAR**

This great king was a powerful monarch of his time and was also said to be an enlightened despot. He was always accessible to the common people and listened to their complaints and transacted the state business (Zharokh –e-darshan). \(^{18}\)

He was very particular about the public welfare. It was the Kotwals’ duty to keep himself in touch with the people and have information about the condition of every family. The Kotwal was to look after the sanitation of the town and keep the public thoroughfares free from obstruction and nuisance. It was his duty to force the idle and beggars to some sort of work. Kotwal checked the unfair practices. He also used to control prices, inspect markets, weights and measures. \(^{19}\)

Abul Fazi in his treaties Ain-I-Akbari has made a reference to the trade practices followed in the period of Akbar’s. He states that all goods were sold at a fixed profit margin laid down by the Government. For checking unfair trade practices efficient intelligence system was created and a strict punishment was introduced to enforce the law. He abolished the pilgrim tax in 1953 and Jiziyah in 1954. Such acts enabled him to win the goodwill of vast majority of the inhabitants of the country.

In Akbar’s era, if the natural calamities aroused, the businessmen opened their godowns and treasures for the aid to the needy. There is a glaring example of Bhma-shah helping the king Maharana Pratap of Chittor when he was fighting a lone battle with Akbar the great.

It is worthy noting that the Nagar sheths of that era had a compassionate outlook with respect to the needs of poor. There are instances in the Indian history that these people donated money in the event of natural calamities like draught, flood and disease. At times they even helped needy rulers.

The traders-bankers enjoyed wide prosperity and were held in high esteem during the 17\(^{th}\) and 18\(^{th}\) centuries by Muslim rulers. Observes Gadgil: “In the socio-economic life of the towns then, the trader’s financiers held, in every way, a
commanding position.” In the 18th century Marathi treaties on the statecraft have described the importance of the traders thus, “The Sahukars are ornaments of royalty and the kingdom. They made the realm prosperous and provided loans to the kings and people in the needy times. By their aids, calamities were averted. There was much profit in extending protection to them. For this, they were accorded status; they were protected from arbitrary acts and insults and were given aristocratic quarters. 20

2.2.3 COLONIAN PERIOD

With the growth of British rule in India, Christianity flourished rapidly in India. The socio-economic life of the country also changed. Christianity emphasis upon character of man, his motives, will and desire, and also puts the value of the self or the person in the community at high esteem. The thinkers in this context believe that social institutions played important role from time to time. They even argued that business aspects like wage, prices and output should be controlled, they also believed that the church should not restrict its ministry and activities of spiritual life and disregard the functioning of social institutions. The church and each individual Christian has a duty to work for a better social order. They emphasized the need for the public regulation. Above all, protestant philosophy believed and emphasized that the distribution of income should be determined primarily on the basis of justice. 21

The influence of European on the Indian economic activities has lead to the industrial revolution. Before 1750, the Europeans had said to dominate the seas around India and had largely controlled India’s external trade by sea. The Portuguese, who had arrived in the country at the end of the 15th century, had within a few decades, by their campaigns from the red sea Malacca, substantially wrested from the Arab, controlled the trade in the Indian seas. However, the Portuguese indulged largely in political and Missionary activities and behaved more as conquerors than as merchants but were unable to sustain. In 17th century, the Dutch, the English and the French successively entered the field, but all of them limited their activities to trade in India and made no significant attempt at gaining political power till the first half of the 18th century.
The Europeans at this time mainly in built their shops and manufactured firearms. These enabled them in securing their foothold in India and were able to maintain and defend their trading posts, sometimes against the opposition of the neighboring Indian states. It gave them a great advantage over the Indian traders and navigators thereby enabled them to fight piracy on the sea. 22

In 18th century the business was captured and dominated by the British’s and the Portuguese. This was the time when it is said that the unfair practices boomed in the country, mainly by the traders, or one can say that during this period the moral degradation of business was on the move.

Business as an activity is very ancient to India. There are ample evidence that India has enjoyed worldwide reputation from the very early times in the production of delicate woven fabrics, art pieces and craftsmanship. For same evidence can be seen in Harapan and Mohenjodaro civilization.

During the 17th century India was known as “the industrial workshop” of the world. Her economic and financial organization of crafts was far advanced in comparison with Europe. The Indian crafts and industries were no doubt hampered by the waves of conquest which came after 11th century till British supremacy established in 1857. Still Indian products were in demand in India and outside. The policies which the East India Company pursued between 1758 and 1857, resulted in a steady decline and ultimately the fall of the Indian Industries. 23

The trade policies of British’s basically repressed Indian business, whereas British goods were pushed in Indian market at a very cheaper rate. Mortality rate of Indian industries rose considerably during 1800 to 1900. The period between 1870 and 1903 was a period of consolidation by British government through administration reform and railways. Indian national congress made repeated references to the need for technical, industrial and commercial education for the development of the industries. The returns of the foreign trade showed a steady expansion in the export of manufactured goods and in the imports of raw materials. 24
Despite unfavorable attitude of the British’s during the era, in 1903 to 1931 Indians played major role in commerce and industry. Almost from the beginning of this period, politics and business joined hands. The prominent business communities were of Marwaris, Parsis, and Gujaratis. The development in industrial sector demonstrated the will and the determination of the business houses to rehabilitate the country’s economy. Initially, was developed as prosperity concern and then was converted in to joint stock companies. Largely Indian business lacked capital and financial facilities, and regular supply of scientific and technical experts and skilled labors. The problems of industrial relations were simple in character but industrial unrest started only after the First World War.

During the Second World War, Indian business got an excellent opportunity to develop new industries and to organize and revitalize labor. Ones during this period, the industrial development of India received a big boost and grew at a rapid speed but at the same time It was distressing to note that the Indian business resorted to a host of unfair trade practices like monopoly, black-marketing, and many more. This got further impetus with the passage of time and continued even after the Second World War. Though British government strictly enforced various laws to check unfair practices, it could not yield desirable result. Without any exception, frequent violations were made in deceitful manner and it became a regular feature of then corporate behavior. The moral degradation of business elite further accelerated and never bothered to follow the law meant for regulation of business activity and also failed to take notice of the aspirations and expectations of the workers in respect of fringe benefits, wage, service conditions and promotions. Discrepancies in earning of workers and increase in cost of living led to the strengthening of labor unions. Indian business class also did not do much on its own to remove the grievances of the workers and disputes started taking an alarming shape. Even more serious were the manifestations from the concentration of economic power which vitiated the atmosphere.”
2.2.4 Modern Period

The first Industrial policy was passed in the year 1948 to boost the industrial development of the country. Ever since then industrial map of India has started changing as the government adopted a “Socialistic Pattern of Society,” both public and private sector were asked to play a vital role in the economic prosperity of the country. Though industrialization did bring many benefits to the people, it also created problems of monopolies, industrial relation, consumer protection and the like. The dimensions of such problems are manifold. In an underdeveloped country like ours due to a host of political reasons, problems further multiplied on account of failure of government to strictly enforce law. Among various problems, the issue of monopoly was in focus. Commenting on the problem of concentration of economic power, the monopolies enquire commission remarked, that

“One such manifestation is the achievement by one or more units in an industry of such a dominant position that they are able to control the markets by regulating prices or output or eliminating competition. Another is the adoption by some producers and distributors, even though, they do not enjoy such a dominant position of practices which restrain competition and thereby deprive the community of the beneficent effects of the rivalry between producers and producers and distributors and distributors, to give the best service.”  

The criticisms leveled against Indian businessman would be evidenced from the following examples.

The mid-term report of the Swaratantra Party (Nov. 1969) observed that, “Unfortunately, a large section of the leadership of Indian business has betrayed its obligation to the free way of life and has cheerfully got on the band wagon of state socialism, lured by a desire for quick rupee through permits and licenses”  

Late Jayprakash Narain, while felicitating Ms. Sumati Murarji Desai, (Chairperson of the Scindia Steam Ship Co., Bombay) on her companies’ exemplary record of public
service is reported to have said “very few business houses had a sense of business ethics.” 27

M.R. Masani in a paper read before the sixth international colloquium on Democracy and developed, held at Coonoor in (Oct. 1968) said “now, we to have a new class in India. It has three sectors namely the corrupt politicians, the corrupt bureaucrats, and the corrupt businessmen. They all work together, hand in glow” 28

The Sachar committee observed that “In the development of corporate ethics, a stage has been reached where the question of social response of business to the community can no longer be scoffed at all taken lightly on the plea that corporations are performing a social purpose in the development of the country. It can only be judged by the rest of the social responsiveness shown by them to the needs of the community. The company must behave and function as a responsible member of the society like any other individual. It cannot shun moral values nor can it ignore actual compulsion. The real need for some focus of accountability is on the part of the management not been limited to share holders alone. In modern times, the objective of business has to be the proper utilization of the resources of the benefits of others. Profit is still a necessary part of the total picture but it is not the primary purpose. The company must accept its obligations to be socially responsible and to work for the larger benefit of the community.” 29

Latterly, attacks by the government spokesman have been more frequent. The conflict between the entrepreneurial and social justice is the main theme of certain recent reports. P.C. Mahalanobis committee report on the distribution of income and levels of living (1964), K.C. Dasgupta commission report on monopoly enquiry (1965), the report of R.K. Hazari committee on industrial licensing policy enquiry (1969), the Sachar committee report on companies and MRTP (1969), and surveys undertaken by individuals and All India Consumer Guidance Bureau, The Bharat Sevak Samaj, all have pin pointed the various abuses, malpractices and unfair means adopted by the business community.

One should not deprive the business class of the due share of credit, for we owe them the development of our industries and much of the trade, finance, commerce and
transport. But unfortunately, it has been developing tainting image on their glorious past. The phenomenon has started developing at accelerated rate since the fifties and sixties. The glaring cause for the suspicion and hostility towards private businessmen has been the fact that the ethical standards adopted in the past by some elements in trade and industry and gradually declining and in some cases it has been atrociously low. This has done immense damage to the prestige and credibility of businessmen through the depreciations, misdeeds and conspicuous expenditure of a few individuals and leading large enterprise in their reckless pursuit of wealth, profit and self aggrandizement and wanton disregard of the public interest. Tax evasion, black marketing, illegal foreign exchanged transactions, bribery, corruption, political, intrigues, sale of adulterated goods, use of short weights and measures and misleading advertisements have been the main instruments of personal gain used by such businessman.

It is not an exaggeration to say that today the edifice of Indian business largely based on hoarding, black marketing, and adulteration, and profiteering, unethical advertisement, exploitation of labor, violation of various laws, tax evasion and the reaction of monopolies. To have a smooth sailing most of them adopt tactics of corruption like bribes, kickbacks, call girls, donation to political parties.

Exhorting the importance of social responsibility of business, Shari Arvind Mafatlal has rightly remarked that: "Businessmen and industrialist should discharge their social responsibilities on a scale and on such diverse lines that they should go beyond the requirements of various laws of the country. They should set an example in their sharing prosperity and projects, with their employees and the community at large without being compelled to do so at every stage by the government. The tarnished image of private business can be improved and brightened only if it discharges its social responsibilities honestly and as a matter of moral duty. Let us remember that the private sector can survive in India or elsewhere only if it proves its values to the society."

As a result of this the corporations are becoming more sensitive to the fact that unless the policies of the business benefit society, they will not in the long run benefit the business no matter however attractive they may be in the short run. Management
therefore finds the means for harmonizing the interests of enterprises with the common good, for making its own self interest correspond with the public interest.

In past two decades, a fury of criticisms has been leveled against the ethical attitudes of business class in various conferences, seminars and political platforms. Besides, academicians have forced the businessmen to give serious thought to its social responsibilities. Also, the pressure of protective legislations, Consumer organizations, trade unions, and changing expectations of community have further made businessmen to realize that they must say good bye to the philosophy of profiteering and embrace one which places emphasis on the societal wellbeing. 30

2.3 THE AMERICAN EXPERIENCE

Both public and private sectors in the US have been addressing ethics in the business explicitly for over two decades. There is no longer any reservation about using the term ‘ethics’ to describe the desired behavior; The British circumlocutions of standards in Public Life or corporate integrity are not required. There is consensus that if an individual wishes to stand for public office, or to be appointed by the president to an executive position in the civil service, that the responsibility is on them to prove that they are worthy of the trust of the people. White collar crime does not have the protected status; it is accorded by British courts- and, to some extent, by the British public. The majority of Americans have no problems with equating major fraud, or health and safety breaches, with muggings or manslaughter.

2.3.1 US PRIVATE SECTOR

American companies lead the world in integrating business ethics processes and programs in to their everyday management operations. Around 95% of companies have a code of conduct; a growing number have an office of ethics and business conduct, and training in ethics is now commonplace. What is less widely recognized is that this growth in business ethics has been largely dictated by government action –
the combined impact of a series of separate piece of legislation and government investigations. 31

To appreciate what follows, namely that the doctrine of vicarious corporate liability is more developed in the US. In effect, it is much easier to prosecute a company for wrongdoing: the courts not only can, but do, impose substantial fines running in to many million dollars.

The Foreign Corrupt Practices Act of 1977, which shared its origins with the Watergate scandal, prohibits US companies from offering anything of value, directly or indirectly, to a foreign government official or political party representative to obtain or retain business overseas. This required corporations to revamp their internal procedures, and in many cases they responded by developing code of conduct. There were immediate protests that this would make American Business uncompetitive internationally, but the majority of corporations continue to trade world wide with no apparent ill effects. 32

In the early 1980’s, scandals in the defense industry led the federal government to establish the Packard Commission to investigate the state of the industry. Its report in 1986 favored self regulation and prompted the major defense contractors to endorse a set of principles known as the ‘Defense Industry Initiatives on Business Ethics and Conduct’. The forty six signatories agreed to adopt and enforce codes of conduct. 33

However, by July 1988, thirty-nine of these forty six signatories were under federal investigation for fraud and other crimes. Members of congress began to call for mandatory corporate codes. Defense contractors responded, yet again, by attempting to strengthen their self-regulation.

In 1987, the Tradeway Commission on fraudulent financial reporting suggested that all public companies should develop and enforce written codes of conduct compliance with which should be reviewed annually by the company’s audit committee.

Following the insider trading scandals of the later 1980s (Dennis Levine, Ivan Boesky and Michal Milken, among others), Congress enacted the Insider Trade and securities
Fraud Enforcement Act (ITSFEA) which, among other things, made the failure to implement an effective code of conduct a potential source of liability under certain circumstances. The courts were empowered to award a penalty of three times the profit gained or loss avoided, or $1 million if that were greater.  

The most recent – and perhaps final – part of the jigsaw came in the Federal Sentencing Guidelines of 1991. The Federal Sentencing Commission was set up as a new federal Agency to bring consistency in to sentencing. The primary focus was on individuals, but the commission also looked at corporate penalties. The research showed that the median fine to corporations was only 20% of the loss caused by the following corporation. Between 1984 and 1987 the average fine was $48,000 and 67% of all such fines amounted to less than $10,000.

The Commission concluded that sentencing should be determined by what involved – that there should be an attempt to assess the good citizenship of corporations, perhaps by developing a ‘culpability score’. Since that time guidelines have been developed with an extensive dialogue with the business community. The effect of these is to reward companies for good behavior. If a company is convicted of any offense, the fines are normally two or three times the damage caused by the company’s action. But if the company can prove that it has an effective ethics program in place, the fines can be mitigated by as much as 95%.

The guidelines state, ‘the hallmark of an effective program to prevent and detect violation of law is that the organization exercised due diligence in seeking to prevent and detect criminal conduct by its employees and other agents.’ The concept of due diligence is then laid down very precisely, in seven steps.

**Step 1**

The organization must have established compliance standards and procedures to be followed by its employees and other agents that are reasonably capable of reducing the prospect of criminal code of conduct.
Step 2

Specific individual(s) within high level personnel of the organization must have been assigned overall responsibility to ensure compliance with such standards and procedures. (These are defined as ‘individuals who have substantial control over the organization or who have a substantial role in making of policy within the organization. The term includes a director, an executive officer, an individual in charge of major business or functional unit of the organization, such as sales, administration or finance, and an individual with substantial ownership interest) (Top management responsibility)

Step 3

The organization must have used due care not to delegate substantial discretionary authority to individuals whom the organization knew, or should have known through the exercise of due diligence, had a propensity to engage in illegal activities (screen personnel)

Step 4

The organization must have taken steps to communicate strictly its standards and procedures to all employees and other agents, for example by requiring participation in training programs or by disseminating publications that explain in a practical matter what is required (Training and communication)

Step 5

The organization must have taken reasonable steps to achieve compliance with its standards, for example: utilizing monitoring and auditing systems reasonably designed to detect criminal conduct by its employees and other agents and by having in place and publishing a reporting system whereby employees and other agents could report criminal conduct by others within the organization without fear of retribution (Monitor: provide hotline/advice line: protect whistleblowers)
Step 6

The standards must have been consistently enforced through appropriate disciplinary mechanisms, including, as appropriate, discipline on individuals responsible for the failure to detect an offense. (Action, not words)

Step 7

After an offense has been detected, the organization must have taken all reasonable steps to respond appropriately to the offense and to prevent further similar offenses – including any necessary modifications of the program to prevent and detect violations of law.

The seven step process is the most comprehensive outline yet developed of the actions an organization needs to take if it is serious about encouraging ethical behavior, it can be criticized for being too formal and too legalistic. It is certainly both. But it has been developed after long experience of attempts at self-regulation which included only some of these features, and which proved flawed. Those companies which take it most seriously tend to be the ones which have been exposed to a major breakdown in corporate behavior. The guidelines leave a considerable degree of latitude in interpretation, and a variety of models have been developed. These are a few examples. 37

Example: Dun and Bradstreet

The Dun and Bradstreet Corporation were exposed to class action suits in relation to its selling practices in one division of the company in 1989. At the time, like many others, the organization was going through fundamental change. “We had made incorrect assumption that everyone understood our values,” said ethics vice-president Bill Redgate. “But you can’t make that assumption!”

The chairman of this 152 – years old corporation with 54,000 associates in 70 countries worked personally with a consultant for over a year, talking with focus groups at all levels of the company, to draft a one-page values statement. Senior
executives then developed a list of values actions to back this up, which include incorporating the values in to performance reviews. The office of Business Practices was established: Redgate describes himself as ‘the conscience of the corporation’.

Forty thousand staff were undertook a listening exercise, in which he came face to face with 4000 associates. Training is repeated annually (with a training video translated in to nine languages); the employee survey every eighteen months contains a section on ethics; the 0800 number advice line receive over five hundred calls a year – all dealt with personally by Redgate, who prefers to work alone but in cooperation with other divisions of the company. There have been sacking of very senior people for breach of the values.

**Example: Hughes Corporation**

The Hughes Corporation has taken a much moral formal approach, with 13 full time staff in the ethics office and 35 part timers in different parts of the company. Their liabilities, as a government defense contractor, are of course greater. As a signatory to the Defense Industry Initiative, their ethics program dates back to 1986 – and they have learned the hard way that a partial program is not enough.

Their new program is scrupulous about objectivity, recognizing the very difficult personal dilemmas facing those whose close colleagues are behaving improperly. Their Ethics Officer Pat Rodgers is brutally realistic: “You are not going to get a feel-good solution to all ethics problems”. Their advice lines receive some 4000 contracts a year from the 80000 employees. There is an annual training requirement in ethics for every employee – and this training has to be carried out by the line managers.

Rodgers feels there is no such thing as a company culture in today’s world. All companies are multi-cultural: he does not attempt to change employees’ values once they arrive at the workplace – only to ensure that they practice the company’s values while they are there.
Example: Nynex

This telecom company has 72000 people and an ethics office of 11 headed by Graydon Wood. Driven to re-invent its ethics, as were so many others, by a major scandal, their ethics program is now comprehensive. The advice line has been running for five years, and in 1994 had 3000 contracts. “People were paranoid about the possibility of malicious calls at first, says Wood, “but its just not an issue. We have may be had a dozen out of over 10,000 calls”

60,000 people were trained in the first year, and ongoing ethics training around twenty thousand people a year. But the training is backed up by a number of regular communications, and every other leadership conference has ethics as a major point on the agenda.

The process is driven by the Audit Committee of outside directors, who receive regular confidential reports from Wood. A comprehensive survey is conducted every two years, sent to employee’s homes. A three year ethics business plan outlines goals, strategies, initiatives and measures of success.

Example: Digital Equipment Corporation

Like many others companies, Digital promotes a values-based approach. “The compliance approach can get things going.” Says John Buckley, Digital’s ethics officer, ‘but it reaches a limit. You need to go beyond this, to internalization.’ Although a defense industry suppliers, Digital is one of the relatives few companies which have put a major ethics process in place without having had any kind of major disaster.

They have found their values to be a positive asset during the painful downsizing which they have gone through. “Our ethics program are designed for ethical people”, says Buckle. “The vast majority of our people are good and well intentioned – but they get trapped by short-term business pressure in to rationalizing things they shouldn’t be doing.”
Digital’s two person ethics office uses calls to the helpline to alert them to potential problems. Vic Pompa, in charge of training, works closely with a major organizational development efforts. They attend senior staff meetings regularly, and general management training includes ethics modules. A computer-based training program is being designed to go on the internal network. “We partner up with everybody.” Says Pompa. An ethics module is also incorporated in to the internal audit program.

The Ethics Officer Association, based at Bentley College’s Center for Business Ethics, now has over two hundred members. While ethics is seen as a source of competitive advantage for each company, there is little or no competition on the subject of ethics. Members of the Association share information freely with each other (even when they are within the same industry) and regularly with permission borrow from each other’s written materials and training programs. Auditing and benchmarking initiatives are under way.

While many of these ethics officer posts were created to ensure compliance with legislation, ethics officers invariably push their remit far beyond compliance. Normally supported by the direct back-up of the Chairman of Chief Executive, they are exploring the limits of these new roles. Recognizing that the process is far from the perfect, they nevertheless believe strongly that they are on the right track for improving corporate behavior.

The Ethics Resource Center, who has worked with over 130 major corporations, is clear that compliance alone is not enough. They find that corporate misconduct does not result from ignorance of the law, but from the pressure on employees who rationalize their action because it is in pursuit of desirable, yet seemingly unattainable, business objectives. They would rewrite the Federal Sentencing Guidelines seven step process as follows. 38
Leadership

There must be active demonstration of commitment to corporate standards in the conduct of senior executives, and on the system they deploy for planning, budgeting, forecasting, revenue recognition and performance incentives.

Clear standards of conduct applicable to daily responsibilities

Codes of conducts should be written in simple language, and relevant to key issues faced by employees on a daily basis.

Balanced communication of company standards and business objective

In many companies, ethics and compliance are discussed annually. Meanwhile, performance is examined quarterly, monthly, even daily. This difference is emphasis is not lost on employees. In effective company programs, managers strive to link discussions of performance to reminders about corporate values and compliance.

Fair enforcement and discipline

The same rules should apply equally to all employees, including top performers and senior executives. Anything else breeds cynicism and fosters the belief that policies are made to be broken.

A safety-value for employees

The best ethics offices promote ‘help’ lines rather than hotlines, for employees who don’t know the right thing to do, or who believes that managers expect them to do a wrong thing. In an effective program between 5% and 8% of the employee population will call the help line each year – and 85% of these calls will be seeking advice rather than making a complaint.
Proper goal setting and incentive and reward systems

When earnings declines or market share erodes, companies often increase sales quotas and reduce head counts without a realistic appraisal of the market or of the internal capacity. Companies with successful compliance efforts understand a unrealistic planning, budgeting and forecasting create an environment where decent people ma believe that top management expects them to violate companies standards and the law, if necessary, to succeed.

An ongoing process

Companies need to understand that ethics is not a program. It is achieved only through continually improving the environment in which decision making and conduct occur.

2.3.2 US PUBLIC SECTOR

The US public sector has been equally vigorous in trying to operationally ethical principles. Following Watergate, the Carter administration established the office of Government Ethics (OGE) by the Ethics in Government Act of 1978. This office is responsible for providing ‘overall direction of executive branch polices related to preventing conflicts of interest on the part of officers and employees of any executive agency’. Its remit is confined to the Executive ranch of the Federal Government - the two other branch, the Judiciary and Congress have their own separate processes for ensuring probity.

Prior to this Act, there had been a Code of Conduct. President Lyndon B Johnson in 1965 had set out ‘Standards of Conduct’ and directed his civil service commission to issue model regulations. Each government agency was hen required to issue its own regulations that were consistent with the model. The OGE found, however, that agency regulations were not always consistent with the model, or they were written consistently, but were interpreted differently by different agencies. A further
President’s Commission on Federal Ethics Law Reform was convened in 1989 to evaluate existing rules and policies.

The OGE also has responsibility for ensuring through agency ethics programs that all executive branch employees (that is to say, all civil servants) are aware of the standards of conduct. Each agency (of which there are around 170, employing approaching 5 million people) had its own dedicated ethics officer, who is responsible for an initial ethics orientation for all staff and annual training for employees in specified positions. They have to file a return plan for this training with OGE, who provide support and developing training materials and have a remit to monitor the programs. The ethics officers provide confidential help and advice to any staff with concerns.

The Fourteen Principles which define standards of behavior were backed up two years later by the Final Rule – a densely printed sixty – page document which purports to dot every possible ‘i’ and cross every possible ‘t’. The effect to this level of the detail, however is to turn what should be a sensible tool to aid effective and honest management in to a lawyer’s paradise.

The better answer lies somewhere between the extremes of the code alone. The excessive legalistic regulations accompany that code. The standards of conduct were in a place well before Watergate, but at that time there was no coherence on implementation, and no monitoring of there effectiveness.

In addition to these federal principles, each state has now adopted its own ethical principles, and in most states there is a similar process of training and availability of advice lines for employees.

Used improperly, however, ethics can – and does – become a political football. One leading columnist asked, “Is it pure coincidence that Ron Brown, the widely respected Secretary of Commerce who was reportedly ready to chair the president’s re-election efforts, finds himself instead the target of investigations by Republicans in the House?” She went on to say, “Ethics has emerged as just one more tool in perpetual negative campaign, a handy sword wielded by cynics who would rather destroy their
opponents than debate them, egged on by an intensely competitive press corps that cannot resist a good confrontation. The purpose of high ethical standards in government is to have good people in government, not to drive the out or scare them away.” Whether or not she is right about Brown’s probity the point is undeniable; any ethical process can be used maliciously.

2.4 THE EUROPEAN EXPERIENCE

In recent years, there has been considerable European interest in business ethics, stemming from the movement in the USA. Of all the management functions, operations management has been the least discussed in relation to ethical issues. Though to a greater or lesser extent, ethics is on the public agenda in a number of European countries. The European Business Ethics Network (EBEN) was established in 1987 to bring together business people and academicians to promote values-based management, and has since generated national networks in the Netherlands, Germany, Spain, Italy and the UK. Ethics is a particular concern in Eastern Europe, where the dizzy pace of change and the growth in the organized crime run the risk of creating a free-for-all. Some examples of key issues in a number of European countries follow.

2.4.1 UK

UK has a very different legal and regularity framework, and has a distinct approach to the enforcement of laws and regulations.

White collar crimes are treated much more leniently in general than in ‘ordinary’ crime. Following the Guinness conviction in 1990, radio phone-ins posed the question: ‘is it right that these men should be transferred immediately to open prisons? Shouldn’t they be treated like ordinary criminals?’ Many listeners felt that these men were not ordinary criminals, and justifies a special treatment. Cheating companies was seen as very different from cheating your neighbor, or the small shopkeeper down the street. Even the financial Times admitted that businessmen
operate essentially, on the basis that you should not tell a lie, bit if you can get away with it, you are perfectly entitled to mislead.

As Celia Wells points out in her thoughtful and comprehensive discussion of corporate criminal responsibility, the words ‘crime’ and ‘criminal law’ commonly evoke images of what might be called the serious ‘moral’ offenses, that is, theft, murder, rape or burglary. A different vocabulary is used, however, for crimes committed by companies or company representatives ‘Fraud’ is used for ‘theft’; ‘accident’ for ‘violence’ or even ‘unlawful homicide’.

The issue of corporate liability remains both a controversial and an undeveloped subject in UK. Statutes do often provide that if an offense is committed by a company, every director or officer who is implicated shall be guilty, with the onus often placed on the director to prove that it was committed without his consent and that he exercised due diligence to prevent its commission – though there is no detailed description of ‘due diligence’.

In UK the maximum penalty with regards to Health and Safety misconduct is £20,000, as compared to America, where there is no limit and there are very few companies in UK who have code of conduct and exercise environmental audit.

2.4.2 Germany

In Germany, as in UK, it is very difficult to prosecute a company as a corporate entity. In practice, therefore, responsibility for business ethics is delegated from the politicians to the business world. Politicians talk a greater deal about ethics – especially environmental ethics – but the thrust is to self regulation. A number of companies Chief Executives have a strong personal commitment to ethics, and there are a number of industry initiatives. For example, the Chemical Industry Association encourages members to set up ethical guidelines which are mainly environmental, but also deal with issues such as supplying chemical to the third world countries. A growing number of theorists, however, are calling for a special political input, and
research has commenced on ways in which an equivalent to the American Federal Sentencing Guidelines can be implemented.

2.4.3 Italy

Italy has perhaps the greatest incentive for bringing ethics into public policy, and heroic efforts are being made to overcome the systemic corruption recently uncovered in the Italian state. A recent law of public procurement, the Legge Quadro, lays down the criteria which companies need to meet to obtain government contracts. As well as meeting financial and quality standards, the company is also required to qualify ‘from a moral point of view.’ However, Berlusconi suspended this law because he said it was too strict, and it is still awaiting approval. Confindustria (the equivalent of the CBI) is developing a framework for company ethical codes, together with the Ministry of Public Administration (Ministro Della Funzione Pubblica). A general ethical constitution is being debated for cooperatives in the private sector. A Charter of Citizen’s Rights is being drawn up, which aims to give the citizen a voice and an opportunity to correct mismanagement in public organizations. All of this is supported by strong public pressure, by judges and by political debate.

2.4.4 Netherlands

The Netherlands is a very casual society, and prefers to operate by self-regulation. Their environmental standards are extremely high, and have been achieved by a strategy of covenants over the last five or eight years, negotiated on a voluntary basis between government, business and trade unions. Government officials sign up to these self regulations. Only 22% of companies have a code of conduct, against the European average of 45%. However, a number of major companies are concerned with ethics, and organize training for their senior managers. The Ministry of Justice is also funding the development by the European Institute for Business Ethics of a guide and a code of conduct to contribute to crime prevention. Closely linked to this is an integrity program for Inland Revenue staff.
2.4.5 France

France is suffering from a series of high profile scandals and corruption allegations, involving leading businessmen and politicians, both together and separately. The highly centralized approach to power results in the President-Directeur-General of a French company having a degree of control over his (rarely her) business greater than that of any UK or US CEO: the calls for reforms of this system are being heard, but change is slow. However, as a direct consequence of the scandals, some companies are appointing business ethics directors (directeur de la deontologie). Corporate community involvement is much less developed than in the UK; at a recent conference in Paris on the role and responsibilities of business in shaping cites the debate was not about how best to play that role, but weather business had any role to play.

2.4.6 Czech Republic

Conflict of interest is the main ethical theme in the Czech Republic. There is a current legislative proposal to regulate conflict of interest: some government officials and politicians are on the boards of private companies. The common understanding is that what is not forbidden explicitly by law is allowed. There is growing pressure from the general public, from the political opposition, and some of the smallest parties in the governing coalition. Companies are beginning to adopt codes of conduct.

2.5 EMERGING DISCIPLINES OF ETHICS

2.5.1 PROFESSIONAL ETHICS

Business ethics is now considered a management discipline unlike earlier, especially since the birth of the social responsibility movement in the 1960s. In that decade, social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime,
environmental protection, equal rights, public health and improving education. An increasing number of people asserted that because businesses were making a profit from using our country's resources, these businesses owed it to our country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

The emergence of business ethics is similar to other management disciplines. For example, organizations realized that they needed to manage a more positive image to the public and so the recent discipline of public relations was born. Organizations realized they needed to better manage their human resources and so the recent discipline of human resources was born. As commerce became more complicated and dynamic, organizations realized they needed more guidance to ensure their dealings supported the common good and did not harm others – and so business ethics was born.

Note that 90% of business schools now provide some form of training in business ethics. Today, ethics in the workplace can be managed through use of codes of ethics, codes of conduct, roles of ethicists and ethics committees, policies and procedures, procedures to resolve ethical dilemmas, ethics training, etc.

SOME FACTS ABOUT PROFESSIONAL ETHICS IN THE WORK PLACE:

Professional Ethics in the workplace is about prioritizing moral values for the workplace and ensuring behaviors are aligned with those values. It's values management. Yet, myths abound about business ethics. Some of these myths arise from general confusion about the notion of ethics.

- **Professional ethics is more a matter of religion than management.**

"altering people's values or souls isn't the aim of an organizational ethics program -- managing values and conflict among them is ...

- **Our employees are ethical so we don't need attention to business ethics.**

  Most of the ethical dilemmas faced by managers in the workplace are highly complex. Wallace explains that one knows when they have a significant ethical conflict when there is presence of a) significant value conflicts among differing interests, b) real alternatives that are equality justifiable and c) significant consequences on "stakeholders" in the situation. Kirrane mentions that when the topic of business ethics comes up, people are quick to speak of the Golden Rule, honesty and courtesy. But when presented with complex ethical dilemmas, most people realize there's a wide "gray area" when trying to apply ethical principles.

- **Business ethics is a discipline best led by philosophers and academics**

  Lack of involvement of leaders and managers in business ethics literature and discussions has led many to believe that business ethics is a fad or movement, having little to do with the day-to-day realities of running an organization. They believe business ethics is primarily a complex philosophical debate or a religion. However, business ethics is a management discipline with a programmatic approach that includes several practical tools. Ethics management programs have practical applications in other areas of management areas, as well.

- **Business ethics is superfluous -- it only asserts the obvious: "do good!!"**

  Many people react that codes of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent values to which everyone should naturally aspire. However, the value of a code of ethics to an organization is its priority and focus regarding certain ethical values in that workplace. For example, it’s obvious that all people should be honest. However, if an organization is struggling around continuing occasions of deceit in the workplace, a priority on honesty is very timely -- and honesty should be listed in
that organization’s code of ethics. Note that a code of ethics is an organic instrument that changes with the needs of society and the organization.

- **Business ethics is a matter of the good guys preaching to the bad guys.**

  Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. However, those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. (Stress or confusion is not excuses for unethical actions -- they are reasons.) Managing ethics in the workplace includes all of us working together to help each other remain ethical and to work through confusing and stressful ethical dilemmas.

- **Professional ethics in the new policeperson on the block.**

  Many believe business ethics is a recent phenomenon because of increased attention to the topic in popular and management literature. However, business ethics was written about even 2,000 years ago -- at least since Cicero wrote about the topic in his On Duties. Business ethics has gotten more attention recently because of the social responsibility movement that started in the 1960s.

- **Ethics can't be managed.**

  Actually, ethics is always "managed" -- but, too often, indirectly. For example, the behavior of the organization's founder or current leader is a strong moral influence or directive if you will, on behavior or employees in the workplace. Strategic priorities (profit maximization, expanding market share, cutting costs, etc.) can be very strong influences on morality. Laws, regulations and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/or minimizes harm to the community. Some are still skeptical about business ethics, believing you can't manage values in an organization. Donaldson and Davis (Management Decision, V28, N6) note that management, after all, is a value system. Skeptics might consider the tremendous influence of several "codes
of ethics," such as the "10 Commandments" in Christian religions or the U.S. Constitution. Codes can be very powerful in smaller "organizations" as well.

- **Professional ethics and social responsibility are the same thing:**

  The social responsibility movement is one aspect of the overall discipline of business ethics. Madsen and Shafritz refine the definition of business ethics to be:

  1) an application of ethics to the corporate community,
  
  2) a way to determine responsibility in business dealings,
  
  3) the identification of important business and social issues.

  Writings about social responsibility often do not address practical matters of managing ethics in the workplace, e.g., developing codes, updating polices and procedures, approaches to resolving ethical dilemmas, etc.

- **Our organization is not in trouble with the law, so we're ethical.**

  One can often be unethical, yet operate within the limits of the law, e.g., withhold information from superiors, fudge on budgets, constantly complain about others, etc. However, breaking the law often starts with unethical behavior that has gone unnoticed. The "boil the frog" phenomena are a useful parable here: If you put a frog in hot water, it immediately jumps out. If you put a frog in cool water and slowly heat up the water, you can eventually boil the frog. The frog doesn't seem to notice the adverse change in its environment.

- **Managing ethics in the workplace has little practical relevance.**

  Managing ethics in the workplace involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted. One might call this "values management." Values management is also highly important in other management
practices, e.g., managing diversity, Total Quality Management and strategic planning.

2.5.2 ETHICS IN FINANCE

Ethics in general is concerned with human behavior that is acceptable or "right" and that is not acceptable or "wrong" based on conventional morality. General ethical norms encompass truthfulness, honesty, integrity, respect for others, fairness, and justice. They relate to all aspects of life, including business and finance. Financial ethics is, therefore, a subset of general ethics.

Ethical dilemmas and ethical violations in finance can be attributed to an inconsistency in the conceptual framework of modern financial-economic theory and the widespread use of a principal-agent model of relationship in financial transactions. The financial-economic theory that underlies the modern capitalist system is based on the rational-maximize paradigm, which holds that individuals are self-seeking (egoistic) and that they behave rationally when they seek to maximize their own interests. The principal-agent model of relationships refers to an arrangement whereby one party, acting as an agent for another, carries out certain functions on behalf of that other. Such arrangements are an integral part of the modern economic and financial system, and it is difficult to imagine it functioning without them.

The most frequently occurring ethical violations in finance relates to insider trading, stakeholder interest versus stockholder interest, investment management, and campaign financing. Businesses in general and financial markets in particular are replete with examples of violations of trust and loyalty in both public and private dealings. Fraudulent financial dealings, influence peddling and corruption in governments, brokers not maintaining proper records of customer trading, cheating customers of their trading profits, unauthorized transactions, misuse of customer funds for personal gain, manipulated pricing, customer trades, and corruption and larceny in banking have become common occurrences.
Insider trading is perhaps one of the most publicized unethical behaviors by traders. Insider trading refers to trading in the securities of a company to take advantage of material "inside" information about the company that is not available to the public. Such a trade is motivated by the possibility of generating extraordinary gain with the help of nonpublic information (information not yet made public). It gives the trader an unfair advantage over other traders in the same security. Insider trading was legal in some European countries until recently. In the United States, the 1984 Trading Sanctions Act made it illegal to trade in a security while in the possession of material nonpublic information. The law applies to both the insiders, who have access to nonpublic information, and the people with whom they share such information.

Approaches to dealing with ethical problems in finance range from establishing ethical codes for financial professionals to efforts to replace the rational-maximizer (egoistic) paradigm that underlies the modern capitalist system by one in which individuals are assumed to be altruistic, honest, and basically virtuous.

It is not uncommon to find established ethical codes and ethical offices in American corporations and in financial markets. Ethical codes for financial markets are established by the official regulatory agencies and self-regulating organizations to ensure ethically responsible behavior on the part of the operatives in the financial markets.

Today it is common to find powerful official regulatory agencies for securities in different countries of world, like SEBI in India, Securities and Exchange Commission (SEC) in US. It is in charge of implementing securities laws, and, as such, it sets up rules and regulations for the proper conduct of professionals operating within its regulatory jurisdiction. Many professionals play a role within the securities industry, among the most important of which are accountants, broker-dealers, investment advisers, and investment companies. Any improper or unethical conduct on the part of these professionals is of great concern to the bodies like SEBI, whose primary responsibility is to protect investor interests and maintain the integrity of the securities market. Such bodies can censure, suspend, or bar professionals who practice within its regulatory domain for lack of requisite qualifications or unethical and improper conduct. In similar manner, there are even bodies which closely regulate sectors like banking, Insurance, Investment options.
2.5.3 ETHICS IN MARKETING

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of fairness, or moral rights and wrongs, to marketing decision making, behavior, and practice in the organization. Indian Marketers and MNCs operating in India started realizing the importance of ethics in marketing and their role in conducting the business which takes care of the society’s interest at the same time optimizing the profit of their organizations. Also the concept of ethics and social responsibility in marketing should be understood by the institutions in the field of academic as well as industry. Marketing managers within different firms will see some social issues as more relevant than others. The relevance of a given social issue is determined by the company’s products, promotional efforts, pricing and distribution policies but also by its philosophy on ethics.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices depart from standards that society considers acceptable, the market process becomes less efficient—sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action. Thus, most organizations are very sensitive to the needs and opinions of their customers and look for ways to protect their long-term interests.

Second, ethical abuses frequently lead to pressure (social or government) for institutions to assume greater responsibility for their actions. Since abuses do occur, some people believe that questionable business practices abound. As a result, consumer interest groups, professional associations, and self-regulatory groups exert considerable influence on marketing. Calls for social responsibility have also subjected marketing practices to a wide range of federal and state regulations designed to either protect consumer rights or to stimulate trade.
Marketers must be aware of ethical standards and acceptable behavior. This awareness means that marketers must recognize the viewpoints of three key players: the company, the industry, and society. Since these three groups almost always have different needs and wants, ethical conflicts are likely to arise. Ethical conflicts in marketing arise in two contexts: First, when there is a difference between the needs of the three aforementioned groups (the company, the industry, and Society) a conflict may arise. Second, when one’s personal value conflict with the organization. In either case, a conflict of interest is a possible outcome.

Standards for ethical marketing asks businessman to do the right thing. Such standards have four functions: to help identify acceptable practices, foster internal control, avoid confusion, and facilitate a basis for discussion. Nowadays, most ethicists believe that Relationship Marketing is a reasonable practice leading to positive relationships between buyers and sellers. Relationship marketing requires that rules are not necessarily contractual. Relationship marketing allows buyers and sellers to work together. However, there are disadvantages to this approach—relationship marketing requires time to develop a list of expected conduct or “rules of behavior.”

Another aspect the marketer has to know about Ethnic Issues while going for global marketing and still take care of Ethics. Culture plays an important role in defining ethical standards because dissimilar cultures socialize their people differently, according to what is acceptable behavior. The potential significance of ethnic groups for marketing justifies inquiry into the moral judgments, standards, and rules of conduct exercised in marketing decisions and situations arising from decisions whether or not to focus on individual ethnic groups within an economy. Identifying and targeting ethnic groups for marketing purposes are tasks fraught with many ethical difficulties. In a multicultural society consisting of a dominant group and many diverse, minority groups defined by ethnicity, these problems can be expected to increase substantially. Consequently, marketers may include minority ethnic consumers in their mainstream marketing programs. In itself, this has ethical consequences. Alternatively, if marketers seek to target individual minority ethnic groups within the same economy a further set of ethical consequences needs to be considered. One possible approach to ethnic marketing ethics within one country, understood as ethics applied to marketing practice targeting minority ethnic groups, is
to apply the same procedures that firms use to deal with ethics problems in the international context.

Different Professional associations and accrediting bodies have identified guidelines for ethics in marketing and also many countries have laid laws in order to execute ethical practices in marketing, like consumer protection act in India. According to these associations, the following rules guide marketing behavior. 41

1. Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics: customers, organizations and society

2. Honesty, Integrity and Quality are far more important than quick profits (Shel Horowitz) 42

3. Participants should be able to expect that products and services are safe and fit for intended uses; that communications about offered products and services are not deceptive; that all parties intend to discharge their obligations, financial and otherwise, in good faith; and that appropriate internal methods exist for equitable adjustment and / or redress of grievances concerning purchases.

4. Marketers should be aware of how their behavior influences the behavior of others in organizational relationships. They should not demand, encourage, or apply coercion to encourage unethical behavior in their relationships with others. 43

5. Conduct your business so as to build long term loyalty. When you get a customer, you want to keep that customer and build a sales relationship that can not only last years, but also create a stream of referral business. (Shel Horowitz) 44
6. Marketers must do no harm. This means doing work for which they are appropriately trained or experienced so that they can actively add value to their organizations and customers. It also means adhering to all applicable laws and regulations and embodying high ethical standards in the choices they make.

7. Marketers must foster trust in the marketing system. This means that products are appropriate for their intended and promoted uses. It requires that marketing communications about goods and services are not intentionally deceptive or misleading. It suggests building relationships that provide for the equitable adjustment and / or redress of customer grievances. It implies striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process.

8. Marketers must embrace, communicate and practice the fundamental ethical values that will improve consumer confidence in the integrity of the marketing exchange system. These basic values are intentionally aspiration and include honesty, responsibility, fairness, respect, openness and citizenship.\textsuperscript{46}

Self-regulation not only helps a firm avoid extensive government intervention; it also permits it to better respond to changes in market conditions. An organization's long-term success and profitability depends on this ability to respond.

Because marketing decisions often require specialized knowledge, ethical issues are often more complicated than those faced in personal life— and effective decision making requires consistency. Because each business situation is different, and not all decisions are simple, many organizations have embraced ethical codes of conduct and rules of professional ethics to guide managers and employees. However, sometimes self-regulation proves insufficient to protect the interest of customers, organizations, or society. At that point, pressures for regulation and enactment of legislation to protect the interests of all parties in the exchange process will likely occur.\textsuperscript{47}
2.5.4 ETHICS IN HUMAN RESOURCE MANAGEMENT

Unlike in other disciplines, ethics in Human Resource Management is most complex. As the matter of fact ethics is different for each individual. The perception of right and wrong varies vividly from person to person and in many instances even changes with circumstances for same individual. Many academicians, philosophers and ethicist have tried underlining the ethics for Human Resource Management and end up concluding ethics as nothing but an integral functioning of human perception. The ethics of Human Resource Management covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee. But one has to define the role of ethics in the Human Resource Management discipline.

One can get instances of ethics in Human Resource Management by many laureates and concepts like trusteeship, social responsibility, utilitarian, stewardship and many more have evolved as to bring ethics as integral function of Human Resource Management. The birth of the social responsibility movement in the 1960s, social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education. An increasing number of people asserted that because businesses were making a profit from using our country's resources, these businesses owed it to our country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.48

Ethics in the Human Resource Management is about prioritizing moral values for the workplace and ensuring behaviors are aligned with those values. It's values management. Yet, myths abound about Human Resource Management ethics. Some of these myths arise from general confusion about the notion of ethics. 45

Ethics in Human Resource Management is more a matter of religion than management. Diane Kirrane asserts that "altering people's values or souls isn't the aim
of Human Resource ethics program -- managing values and conflict among them is..."49

Most of the ethical dilemmas faced by managers in the workplace are highly complex. Wallace explains that one knows when they have a significant ethical conflict when there is presence of 50

a) Significant value conflicts among differing interests
b) Real alternatives that are equality justifiable, and
c) Significant consequences on "stakeholders" in the situation.

Kirrane mentions that when the topic of Human Resource ethics comes up, people are quick to speak of the Golden Rule, honesty and courtesy. But when presented with complex ethical dilemmas, most people realize there's a wide "gray area" when trying to apply ethical principles. 51

Human Resource Management ethics is a discipline best led by philosophers and academicians. Lack of involvement of leaders and managers in Human Resource ethics literature and discussions has led many to believe that Human Resource ethics is a fad or movement, having little to do with the day-to-day realities of running an organization. They believe Human Resource ethics is primarily a complex philosophical debate or a religion. However, Human Resource Management ethics is now a management discipline with a programmatic approach that includes several practical tools. Ethics management programs have practical applications in other areas of management areas, as well.

Human Resource Management ethics is superfluous -- it only asserts the obvious: "do good!" Many people react that codes of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent values to which everyone should naturally aspire. However, the value of a code of ethics to an organization is its priority and focus regarding certain ethical values in that workplace. For example, it's obvious that all people should be honest. However, if an organization is struggling around continuing occasions of deceit in the workplace, a
priority on honesty is very timely -- and honesty should be listed in that organization’s code of ethics. Note that a code of ethics is an organic instrument that changes with the needs of society and the organization.

Human Resource Management ethics is a matter of the good guys preaching to the bad guys. Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. However, those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. (Stress or confusion is not excuses for unethical actions -- they are reasons.) Managing ethics in the workplace includes all human resource working together to help each other remain ethical and to work through confusing and stressful ethical dilemmas.

Human Resource Management ethics is the new policeperson on the block. Many believe Human Resource Management ethics is a recent phenomenon because of increased attention to the topic in management literature. However, Human Resource Management ethics was written about even 2,000 years ago -- at least since Cicero wrote about the topic in his On Duties. Human Resource Management ethics has received more attention recently because of the social responsibility movement that started in the 1960s.

Human Resource Management ethics is always managed unlike many beliefs but, too often, indirectly. For example, the behavior of the organization's founder or current leader is a strong moral influence or directive if you will, on behavior or employees in the workplace. Strategic priorities (profit maximization, expanding market share, cutting costs, etc.) can be very strong influences on morality. Laws, regulations and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/or minimizes harm to the community. Some are still skeptical about Human Resource ethics, believing one can't manage values in an organization. Donaldson and Davis (Management Decision, V28, N6) note that management, after all, is a value system. Skeptics might consider the tremendous influence of several "codes of ethics," such as the "10 Commandments" in Christian religions or the U.S. Constitution. Codes can be very powerful in smaller "organizations" as well.
Ethics in Human Resource Management is mainly about managing ethics in the workplace. It involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted. One might call this "values management." Values management is also highly important in other management practices, e.g., managing diversity, Total Quality Management and strategic planning.

Today the ethics in Human Resource Management has increased the scope and functions of Human Resource Management. The concepts of ethical codes, codes of conducts, ethical basis of performance appraisal, job analysis on grounds of ethical conducts has given Human Resource Management a new definition. The functioning of ethics in the organization has become one of the core objectives and functioning of modern Human Resource Management.

Today ethical considered to be part of HRM are not new to the world. But in management discipline ethical aspects have brought these aspects and previews as the functions of newer HRM. One such concept would be of Whistle Blowing.

In Whistle blowing, whistle blower tells the public or someone in authority about alleged dishonest and misconduct occurring in a government department, a public or private organization, or a company. The alleged misconduct may be classified in many ways; for example, a violation of a law, rule, regulation and/or a direct threat to public interest, such as fraud, health/safety violations, and corruption. Whistleblowers may make their allegations internally to other people within the accused organization or externally to regulators, law enforcement agencies, to the media or to groups concerned with the issues.

In context of company majority whistleblowers are internal whistleblowers, who report misconduct on a fellow employee or superior within their company. One of the most interesting questions with respect to internal whistleblowers is why and under what circumstances people will either act on the spot to stop illegal and otherwise unacceptable behavior or report it. There is some reason to believe that people are more likely to take action with respect to unacceptable behavior, within an
organization, if there are complaint systems that offer not just options dictated by the planning and control organization, but a choice of options for individuals, including an option that offers near absolute confidentiality and safety. This system is known as Whistle Blowing. The table presented below can further explain the process of Whistle Blowing.

An employee enters an agreement to act on behalf of his employer in all matters pertaining to the business and that the employee also implicitly agrees to keep trade secrets and other proprietary information secret. However, this agreement does not impose on the employee unlimited obligation towards his or her employer. Agreements and contracts are void, if they require a person to do something immoral. If an employee has a moral obligation to prevent other people being harmed and the only way to prevent harm is by blowing the whistle on one’s own employer. An employment agreement cannot require the employee to remain silent.

![Flow Chart of Whistle Blowing]

**FIGURE NO 2.1: FLOW CHART OF WHISTLE BLOWING**

(SOURCE: Paper Presented by Kunwar D.P. on professional ethics in human resource management, ACC, Anand)

External whistle blowing can be justified only if other means such as internal whistle blowing of preventing a wrong has been tried but have failed, and only if the harm to be prevented is more serious than the harm that will result to the other parties.
This does not mean that after whistle blowing, the employee cannot be fired for any reason. The employer can continue to treat the employee like any other employee. But the employer cannot treat the employee differently because of the whistle blowing.

There are varied new core principles of Human Resource professionals which they need to execute as part of ethical functioning of Human Resource Management, which can be as follows: 52

- HR professionals are responsible for adding value to the organizations they serve and contributing to the ethical success of those organizations. They should accept professional responsibility for their individual decisions and actions. They also act as advocates for the profession by engaging in activities that enhance its credibility and value.

- As professionals they must strive to meet the highest standards of competence and commit to strengthen the ethical competencies on a continuous basis.

- HR professionals are expected to exhibit individual leadership as a role model for maintaining the highest standards of ethical conduct.

- As human resource professionals, they are ethically responsible for promoting and fostering fairness and justice for all employees and their organizations.

- As HR professionals, one must maintain a high level of trust with the stakeholders. One must protect the interests of the stakeholders as well as ones professional integrity and should not engage in activities that create actual, apparent, or potential conflicts of interest.

- HR professionals consider and protect the rights of individuals, especially in the acquisition and dissemination of information while ensuring truthful communications and facilitating informed decision-making.
To conclude ethics of human resource management covers those ethical issues arising around the employer-employee relationship, such as:

a) Rights and duties owed between employer and employee.

b) Discrimination issues including discrimination on the bases of age, gender, race, religion, disabilities, weight and attractiveness.

c) Issues surrounding the representation of employees and the democratization of the workplace: union busting, strike breaking.

d) Issues affecting the privacy of the employee: workplace surveillance, whistle-blowing.

e) Issues relating to the fairness of the employment contract and the balance of power between employer and employee: slavery, indentured servitude, employment law.

2.5.5 ETHICS IN OPERATION AND PRODUCTION

Ethics in production is not new to the world. Knowingly and unknowingly ethical issues in production have been addressed since the inception of management disciplines.

Ethics of Production deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

Ethics in production and operation covers those ethical issues arising around the employee working, product making and characteristics such as:
a) Defective, addictive and inherently dangerous products and services (e.g. tobacco, alcohol, weapons, motor vehicles, chemical manufacturing, bungee jumping).

b) Ethical relations between the company and the environment: pollution

c) Ethical problems arising out of new technologies: genetically modified food, mobile phone radiation and health.

d) Product testing ethics: animal rights and animal testing, use of economically disadvantaged groups (such as students) as test objects.

e) Hazardous working environment and employees health

2.5.6 INTERNATIONAL BUSINESS ETHICS

As business ethics emerged as a field in the 1970's, international business ethics did not emerge until the late 1990's, looking back on the international developments of the decade. Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values received more emphasis in the field. Other, older issues can be grouped here as well. Issues and subfields include:

- The search for universal values as a basis for international commercial behavior.

- Comparison of business ethical traditions in different countries.

- Comparison of business ethical traditions from various religious perspectives.

- Ethical issues arising out of international business transactions; e.g. Piracy in the pharmaceutical industry; the fair trade movement; transfer pricing.
• Issues such as globalization and cultural imperialism.

• Varying global standards - e.g. the use of child labor, prostitution.

• The way in which multinationals take advantage of international differences, such as outsourcing production (e.g. clothes) and services (e.g. call centers) to low-wage countries.

• The permissibility of international commerce with pariah states.
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