

# Chapter

# 1

## Nature and Scope of Business Ethics

**There is a big difference between  
what you have a right to do and  
what is right to do.**

**- *Justice Potter Stewart***

# **Definition of Ethics**

**Ethics is a set of moral principles or values which is concerned with the righteousness or wrongness of human behavior and which guides your conduct in relation to others (for individuals and organizations).**

## **Definition of Business Ethics:**

**Business Ethics is a specialized study of moral right and wrong. It concentrates on moral standards as they apply particularly to business policies, institutions, and behavior.**

# **Genesis of Ethics**

- **Ethics is a Greek word, it means Character or manners.**
- **Ethics is subjective while morality is objective.**
- **Ethics is about sense of belongingness to society of business. Formed with a limited vision for economic generation but should resolve conflict with society by servicing the community.**

## Scope of Business Ethics

- ❖ Business ethics is simply applying the basic principles of ethics to the field of business which is the major area of making profit.
- ❖ Business ethics is not just compliance to law.
- ❖ The business ethics programmes and policies should be top-driven. The success of ethical programme in an organisation depends on the degree of commitment by the top management.
- ❖ Business ethics is not just related to an individual but to the whole organisation.
- ❖ Business ethics is shifting the focus from shareholders to stockholders.

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### Three Principles of Business Ethics

1. Standardisation
2. Workable
3. Driven from the top

## Religion and Ethics

- ❖ Religion provides guidelines for people on the various aspects of life. It gives primary importance to God and provides people a spiritual path for the success and happiness.
- ❖ According to Indian philosophy, there are three gunas, namely the Sattvik, the Rajasi and the Tamasi gunnas.

## The Role of Karma Yoga

- ❖ Karma yoga, an Indian doctrine, states that action performed without attachment makes people happier. Karma yoga leads to prosperity, success and sound decisions.
- ❖ The doctrine or Karma also suggests that the rewards and punishments are due to the actions of the people in previous births.

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## Morals and Ethics

1. All moral standards aim at the development of positive standards. Ethical standards also aim at the betterment of the ethical practices in organizations.
2. If the moral standards are not followed, there will be serious and disastrous consequences like crimes, corruption and fraud. If ethical standards are not adopted, there will be fall in the values and decline in the efficiency of business enterprises.
3. Both morals and ethical standards can be established only with the active and sincere participation of the people.
4. Both morals and ethics are not only positive sciences but also normative sciences. A positive science explains “what it is” but a normative science explains “what it ought to be”.
5. Both morals and ethical standards are based on impartial considerations bringing long-term benefits. Both discourage short-term gains and partial benefits.

## Types of Ethics

1. **Transactional Ethics:** Man is a Social animal. He Has act and react with other through different transaction. Its practice of ethics is called TE.
2. **Participatory Ethics:** It is an important part of a business ethics. Guided by a common good, all the participations follow some ethical practices.
3. **Recognition Ethics:** it is Ability to understand the Problems of others. . It can be apply the correct recognition of the Situations.

## Characteristics of Business Ethics

1. Each and every person is individually responsible for the ethical or unethical decisions.
2. Ethical decisions are voluntary in nature and people have the freedom of choice and free-will.
3. Ethical decisions differ from person to person, time to time and place to place. Due to socio-economic changes, the ethical decisions also change.
4. Ethical decisions affect in a widespread way.
5. Ethical decisions involve a trade-off between the cost and benefits received.
6. The effects of ethical decisions cannot be predicted.
7. The lower level managers are pressurised to compromise their ethical standards.

## Myths of Business Ethics

1. Ethics is a personal and individual affair
2. Business and ethics do not go hand-in-hand
3. Relative ethics is a common practice
4. Good business means good ethics
5. It is also a myth the people learn ethical practices on their own

## Source of Business Ethics

- ❖ Religion
- ❖ Cultural Experience
- ❖ Philosophical System
- ❖ Legal System

## Factors Influencing Business Ethics

- a) Leadership
- b) Strategy and Performance
- c) Environment
- d) Corporate Culture
- e) Individual Characteristics

## Importance of Business Ethics

1. Social Concern
2. Social Responsibility
3. Avoidance of Whistle-Blowing
4. Value in Business
5. Improves Organisational Effectiveness
6. Healthy Competition
7. Benefit for Stakeholders

## Future of Business Ethics

- ❖ Business ethics advocates profit on a sustainable basis by following certain norms respecting others. Business ethics will focus on fairness, good practices and transparency.
- ❖ Short-cuts like unfair employment policies, tampering of records, cheating of customers and cooking up figures may bring short-term gains but not respect or status in the business world. Business ethics is not just abiding the law of the land but raising standards.
- ❖ Business ethics creates socially aware entrepreneurship. An ethical business firm demonstrates its social concern through its working. More philanthropy does not promote ethical concerns. Strategic philanthropy is the need of the hour.

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## EVOLUTION OF BUSINESS ETHICS

Business ethics refers to the moral principles that guide the operations of a company or business. Common issues that fall under this umbrella include employer-employee relations, discrimination, environmental issues, bribery, insider trading, and social responsibility. While many laws exist to set basic ethical standards within the business community, it is largely dependent upon the leadership within the business to develop a code of ethics.

While practicing strong ethics keeps business within the parameters of the law, it can also serve to build goodwill and brand equity. That's because popular social issues often drive business ethics. When different issues come to the forefront, organizations respond by bringing their ethical tenets in line with new social norms.

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- ❖ The globalisation of business is creating a global awareness in the minds of people. Different business practices are compared and relative judgments are made.
- ❖ Business ethics should not be imposed from outside and it has to start from inside at the workplace, with the employees, suppliers and customers. Business ethics is a code of conduct.
- ❖ Environmental care has become an area of increased concern in modern times. Environmental issues are becoming ethical issues like global warming, air quality and water pollution.
- ❖ In future, the companies across the globe will have to pay more attention to the good value based management practices, monitoring performance, reduction of ethical gap and building reputational capital.