

Chapter

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Basics of Business Ethics

Business Ethics

Ethics is a branch of knowledge that examines good or bad practices within the context of a moral duty. Business ethics is the application of ethical principles in all the aspects of business.

Three Models of Ethical Management

1. Moral management(It is a High standards of ethical behavior.)
2. Immoral management
3. Amoral management

Functional Areas:

1. Marketing

2. HRM

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Marketing Ethics

Introduction

- ❖ In the words of Philip Kotler, “Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others”.
- ❖ The word market for a product is the geographic area in which most of the buyers reside. Due to many socio, economic and technical changes, the concept of market has undergone a lot of changes.

Concept of Marketing

The concept of 4Ps is relevant in modern marketing. The **4Ps** are:

Product

The product is required to be the needs of the customers.

Price

Price is the worth of the product in the minds of the customers.

Place

A convenient place for shopping is also equally important.

Promotion

Promotion includes advertising, personal selling, sales promotion, publicity and public relations so as to increase the sales of a product or service.

The Present Market Environment

The following are the features of the present market scenario in India:

1. A large number of multinational corporations have been operating in India.
2. India's economy has entered globalisation
3. The IT sector has emerged as powerful but in recent times it is experiencing a slow down.
4. There is an influx of cheap chinese goods in a big way.
5. The buying power of urban people has increased. There is also emergence of rural marketing with greater demand, different goods and services.
6. Terrorism has affected the normal life of people in many cities as also tourism and recreation.

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Marketing mix

1. Marketing research
2. Product
3. Packaging
4. Brand
5. Trade mark
6. Price
7. Transportation
8. Advertising
9. Personal selling
10. Credit facilities.

Consumerism

The basic objective of marketing is to satisfy the needs of the consumers. The concept of consumerism is popular and covers most of the nations. Consumerism refers to social activism of protecting the rights of consumers in their dealings with business.

- ❖ Basic rights of consumers
- ❖ U.N. principles of consumer protection
- ❖ Consumer Protection Act, 1986

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Consumers' Rights in India

There are six consumers' rights in India on par with the global situation.

1. Right to SAFETY against hazardous goods and services.
2. Right to be INFORMED about quality, quantity, purity, standard and price.
3. Right to CHOOSE from a variety at competitive prices.
4. Right to be HEARD of complaints and grievances.
5. Right to seek REDRESSAL of grievances
6. Right to CONSUMER EDUCATION on matters related to consumption.

Advertising Ethics

- ❖ Promotional role of advertising
- ❖ Unethical aspects of advertising
- ❖ Advertising and product information
- ❖ Unnecessary buying behaviour
- ❖ Advertising and media
- ❖ Economic ill-effects of advertisement
- ❖ Ethical issues of advertisement
- ❖ Packaging and Labelling
- ❖ Marketing research
- ❖ Price fixation

Marketing Strategies

Marketing strategies are used to increase the market share, effectively compete in marketing and promote the sales. A good marketing strategy has to be followed in accordance with ethical considerations. Some of these ethical considerations are given below:

1. A right type of information has to be provided for the consumers about the quality of the product, safety, usage and its special features.
2. Instead of confusing the customer, there should be clarity in their strategic statements.
3. There should be no force in making the consumers buy the product like 'buy two and get one free'.
4. The consumer should really feel the worth of the money on the product or service.

Problems of e-commerce

Electronic commerce is a modern method addressed to the needs of organisations and consumers. It helps in cutting the cost and increase the speed of service.

Some of the unethical practices in e-commerce are listed below:

1. There are serious discrepancies and even frauds in electronic funds transfer.
2. There are frauds in electronic cheques.
3. There are three major risks involved in the electronic payment systems, namely, fraud and mistakes, privacy issue and credit risk.
4. Some of the laws of the land are violated as e-commerce takes place between many countries of the world.
5. Since the market is not well-defined, the buyers do not have the feel of the product or service.

Consumer Privacy

- ❖ Consumer privacy is a modern concern for marketing. The collection, manipulation and dissemination of personal information have enabled mass invasions of consumer privacy.
- ❖ The loss of privacy is considered an offence. In fact, client confidentiality is as important as national security.
- ❖ There are two basic types of privacy, psychological privacy and physical privacy.
- ❖ The consumers' rights to privacy have to be balanced with the real needs of business.

Corporate Citizenship

The strategy for corporate citizenship consists of the following elements:

- ❖ Commitment from top management
- ❖ Mission and vision statements
- ❖ Collaboration and coordination across business
- ❖ Values
- ❖ Compliance standards

Corporate citizen strongly believes in the following areas:

- ❖ Making meaningful contribution to customers
- ❖ The development of people and community
- ❖ Creating economic value for the shareholders so that they can stand to gain

Due Care Theory

1. Design should be in accordance with the industry specified standards. The components or raw materials should have a standard specification.
2. The method of production should be free from any defect or criticism. It should be done on specific mode.
3. Standard quality control norms have to be followed.
4. Both packaging and labeling have to be done on specific terms.

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Criticism

- There is no clear method for determining due care. Every product has some risk of injury.
- This theory assumes that the manufacturer can discover the risks of a product.
- It also assumes that the manufacturer should be able to make important decisions for the consumers. The consumers are not given a free choice.

Social Cost Theory

In terms of this theory, a manufacturer should pay the costs of any injuries sustained through any defects in the product. The manufacturer has liability to the buyer.

It is criticised on the following grounds:

- ❖ Firstly, this theory ignores the basic principle of compensatory justice.
- ❖ Secondly, this theory is stressing more on the financial burden of the manufacturers.
- ❖ Thirdly, it assumes that the number of injuries will be reduced.

Ethics in Human Resource Management

Introduction

- ❖ Human resource management (HRM) is the process of selecting, developing and maintaining competent workforce to achieve the goals of the organization.
- ❖ It is action-oriented; future-oriented; and development-oriented.
- ❖ One of the aims of HRM is to manage human resources in an ethical and socially responsible manner.
- ❖ Like other branches of management, the HRM also has new features which are different from the traditional practices.

Modern Human Resource Management

- ❖ Modern Human Resource Management (HRM) has given place to human resource development (HRD) so that the individual employees are trained to achieve the goals of the organisation. The groups are nurtured and developed.
- ❖ The scope for the application of ethical practices in human resource management is vast and varied. In fact, human resources are an important form of resources in any business organization.

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Some Unethical Practices by Employers

- ❖ Rift of unions
- ❖ Exploitation
- ❖ Bias in selection
- ❖ Differential treatment

Reward Systems

- ❖ Reward systems play an important influence on the behaviour of the people at work. According to reinforcement theory, people are likely to behave in the way they are rewarded.
- ❖ Employees in business organisations are constantly on the lookout of information about rewards and punishments. People perform according to the reward. The rewards have to be explicit.
- ❖ Every organisation has to determine the actual 'value' of each employee. Valuation of human assets has implications for compensation, promotion and retention.

Cash and Incentive Plans

Ethics requires incentives for better performance and higher qualifications. In any pay system, there should be fairness or equity. The term equity has the following three dimensions:

1. Internal equity, which ensures that more difficult jobs are paid more.
2. External equity ensures that jobs are fairly compensated in accordance with the conditions in the labour market.
3. Individual equity, which ensures equal pay for equal work.

Discrimination

Discrimination is wrong because it violates a person's basic moral rights. According to Kantian theory, human beings should be treated as ends and not merely as means. In developing countries, the following discriminatory practices are followed.

- ❖ Faculty screening
- ❖ Unfair interview
- ❖ Wrong recruitment
- ❖ No consideration for seniority in promotion
- ❖ Discrimination in wages
- ❖ Discrimination in bonus
- ❖ Discrimination in treatment
- ❖ Forced resignation
- ❖ Denying or delaying retirement benefits

Performance Appraisal

- ❖ Performance appraisal is a method of evaluating the behaviour of employees with regard to the various aspects of job performance.
- ❖ Performance appraisal involves three steps namely, setting work standards, assessing employee's actual performance and offering feedback to the employees.

Unethical practices in performance appraisal

1. There are many judgment errors like bias based rating. First impressions may influence the evaluation.
2. The leniency error can affect the performance appraisal system itself as ineffective because of the mental make-up at the time of appraisal.
3. Sometimes the rater may give greater weightage to recent effects than the earlier efforts.
4. The manager may lack appraisal skills.

Whistle-Blowing

Whistle-blowing is an attempt by a present or former member of an organisation to disclose the wrong acts in an organisation.

Necessary conditions for whistle-blowing

- ❖ Moral importance
- ❖ All facts
- ❖ Exhaustion of all channels
- ❖ Best way
- ❖ Chances of success
- ❖ Arguments for whistle-blower protection
- ❖ Arguments against whistle-blower protection
- ❖ Components of a whistle-blowing policy

Sexual Harassment

“Unwelcome sexual advances, requests for sexual favours and other verbal and physical contact of a sexual nature constitute sexual harassment when

- ❖ Submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment.
- ❖ Submission to rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual.
- ❖ Such conduct has the purpose or effect of unreasonable interfering with an individual's working environment.”

Sexual harassment is a violation of the moral standards of utilitarianism, rights, justice and care. Both legislation and education are necessary for eliminating this problem.

1.0 INTRODUCTION

- **Ethics** involves a discipline that examines good or bad practices within the context of a moral duty
 - **Definition of Production:** Production refers to the practices and means that are used to convert tangible and intangible input into goods or services.
 - **Production in Islam:** Creation of utilities and adding value to utilities
- The Holy Prophet said,** “Acquisition of lawful livelihood is the most important obligation after the obligation of prayer”.

Factors Of Production

1. Land
2. Labor
3. Capital
4. Entrepreneur

2.0 PROBLEM STATEMENT

1. Surpluses
2. Producing goods and services in proper proportions
3. Product Halal & Haram
4. Concealment goods

LABOUR WORKING CONDITION

- ❖ **Right to healthy and safe working conditions one of the very first ethical concerns for employees**
- ❖ **Dense network of health, safety and environmental (HSE) regulation**
- ❖ **Main issue is enforcement and implementation**
- ❖ **Newly emergent HSE issues relate to changing patterns of work**
- ❖ **Ethical issues in the context of:**
 - ❖ **Excessive working hours and presenteeism**
 - ❖ **Flexible working patterns**

Ethical Aspects of Financial Management

Ethical Aspects of Financial Management

Unethical activities and financial mismanagement always go together. The following are the major reasons to the increase of unethical financial management.

1. Ambition amongst all the sections of society for disproportionate earnings.
2. Coercive and corrupt practices by the government in terms of acts, policy and procedures.
3. The complex, arbitrary, time-consuming and one-sided tax laws.
4. The power of huge monopolistic organisations.
5. The idea of a socialistic pattern of society where intellectual and materialistic growth is restricted.

Objectives of Financial Management

1. ***Profit maximization:*** Trying to get the best profit is the concern of any investment.
2. ***Wealth creation:*** Investment made in terms of money should create wealth through the production of goods and services.
3. ***Utilisation of financial resources:*** The existing financial resources have to be utilised to a great extent.
4. ***Payment of interest and dividends:*** There should be the timely and prompt payment of interest and dividends to the investors. A delayed payment is often considered as a denied payment.

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Unethical practices in finance

1. Cheating the investors by failing to invest in proper terms. The best example is the chit companies in India.
2. Delays in payment to vendors, dealers and agents.
3. Delays in payments of wages and incentives.
4. Cheating employees regarding LTCs, education schemes for children and other benefits.
5. Lack of prompt repayment of interest and capital to banks.

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6. Hawala transactions in money movements.
7. Making bogus bills of purchase to show higher costs.
8. Encouraging private borrowing from the unorganised sector.
9. Unorganised money lending.
10. Opening of current accounts in different banks to make adjustments against loans by earlier banks.

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Insider trading

Insider trading is the using of inside information to make a personal gain. A public issuer or employee of a company is an insider.

Arguments against insider trading

1. Since information is a property it cannot be stolen by a few people.
2. Insiders take an undue and unfair advantage of the information.
3. The conflicts of interests breed a crisis of confidence. Creating a loss of confidence is an unethical act.
4. Insider trading affects the confidence of investors in the share market.

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Financial engineering

- ❖ It refers to repackaging the services of financial intermediaries.
- ❖ Too much of securitisation also leads to transformation of financial assets into securities than can be traded. It is tools, tricks and insights.
- ❖ It is the application of mathematical tools to financial problems and the management of financial risk.

Churning

It is excessive or inappropriate trading for a client's account by a broker. Since the broker is interested in commission, he practices churning. It is an unethical practice in financial markets.

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Money laundering in India

The following are the important causes for money laundering in India.

1. A reasonable amount of political and economic stability.
2. Existence of major financial centres with access to banking facilities, communications and financial markets.
3. Lack of regulatory controls against money laundering.
4. Presence of cash economy.