

OBM3102

# FOUNDATION IN BUSINESS

SELF INSTRUCTIONAL  
MATERIALS

ACADEMIC YEAR 2023

**FACULTY OF BUSINESS, HUMANITIES &  
HOSPITALITY**

**BACHELOR OF COMMERCE  
(HONS) IN  
INTERNATIONAL BUSINESS**

# Topic 7 ► Ethics

## LEARNING OUTCOMES

By the end of this topic, you will be able to:

1. Explain at least 5 importance of business ethics.
2. Explain at least 5 determinant of business ethics; and
3. Explain 4 ways managers can encourage ethical behavior.

## ► INTRODUCTION

Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects. Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.

7.1	OVERVIEW ON ETHICS
-----	--------------------

7.1.1	Ethics
-------	--------

Man is a social animal. Though rules of nature control humans as they control other living beings, man himself has derived certain principles to govern his own individual and group behavior. These rules, in the form of behavioral standards may differ across cultures and times, but their basic objectives are always mutual existence and peace within the particular community or the social group. By ensuring security and protection of the group these standards helps in the survival of the particular community or a social group and thus its members. These standards of behavior are called “ethics.”

### **Ethics is two things**

First, ethics refers to well-based standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethics, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development of one’s ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine one’s standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

### **7.1.2 Meaning of Business Ethics**

Business ethics means the application of ethics in business. Business ethics are moral principles that guide the way a business behaves. The same principles that determine an individual’s actions also apply to business. Acting in an ethical way involves distinguishing between “right” and “wrong” and then making the “right” choice. It is relatively easy to identify unethical business practices.

However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. A company also has wider responsibilities. It should minimize any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.

Ethical behavior and corporate social responsibility can bring significant benefits to a business. For example, they may:

- Attract customers to the firm's products, thereby boosting sales and profits
- Make employees want to stay with the business, reduce labour turnover and therefore increase productivity
- Attract more employees wanting to work for the business, reduce recruitment costs and enable the company to get the most talented employees
- Attract investors and keep the company's share price high, thereby protecting the business from takeover.

Unethical behavior or a lack of corporate social responsibility, by comparison, may damage a firm's reputation and make it less appealing to stakeholders. Profits could fall as a result.

### 7.1.3 Business Ethics and Organizations

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. Business ethics can be thought of as written and unwritten codes of principles and values that govern decisions and actions within a company. In the business world, the organization's culture sets standards for determining the difference between good and bad decision-making and behavior.

As in other social entities, ethics are inevitable in organizations. Research has already shown that ethics do pay. Since unethical practices cost industries billions of dollars a year and damage the images of corporations, emphasis on ethical behavior in organizations has increased over the recent years. Societal expectations, and pressures from legal and professional bodies have forced organizations to be more concerned about their social responsibilities and ethical practices.

In the mid-1990's Shell faced one of its worst public relations nightmare due to its unethical business practices in Nigeria. In 1997 the Financial Times in its annual survey of Europe's most respected companies identified Shell's ethical problems as the key reason for the company's dramatic drop in rankings. Shell turned upside down in the aftermath of these unfavorable experiences and thus started correcting itself for sustainable growth. Like Shell, many other organizations whose business practices are perceived to be unethical and their products are considered to be harmful to the consumers (e.g. cigarettes) face strong social condemn. In recent corporate history, the Enron and Arthur Anderson episodes, stress the importance of ethical practices in business.

Ethical problems are problems of choice. Ethical problems arise not because of people's tendency to do evil, but because of the conflicting nature of standards and interests, which are valid in themselves. Problems in ethical decision-making and behavior occurs only when individual interests and social norms conflict with each other.

Every organization has its own accountability towards its stakeholders — employees, capital investors, consumers, government, competitors, suppliers, and other community members. In most situations the organizations are able to balance its obligations towards these varied stakeholders. However, sometimes conflicts do arise between the interests of two or more stakeholders. In such

situations the more influential and powerful group could gain precedence over others, to protect their own interests.

For example, though maximizing financial returns is an organization’s obligation towards its shareholders, it could be at the cost of the ecological system or legal business practices. Managers under these situations face the dilemma of protecting long-term interests of the organizations and short-term profits. Recent thrust on high output driven performance and reward linkages in organizations is driving to short-term interests. It might adversely affect the adherence to ethical norms in organizations.

In order to ensure ethical business practices of an organization, it is important to ensure ethical orientation of the people who own, manage, and work for it. Adopting proper structures and practices could ensure it. Structure, policies and practices of an organization influence ethical behavior through flow of communication, reinforcements for ethical behavior etc.

There are two ways that companies can approach and implement the concept business ethics. These two approaches are based on two schools of thought, each providing a different definition for ethics business. The first school of thought is shareholder-focused. It maintains that ethical business decisions can be made when individuals within the organization and the company as a whole always keep the best interest of the owners in mind. For those who see business ethics from the shareholders’ perspective, actions and decisions should be geared towards generating more profit. On the other hand, the stakeholder-focused approach puts premium on corporate social responsibility. Under this concept, ethical companies are those that act and decide with the interest of all stakeholders not just the owners in mind. ethics business means striking a balance to service all groups that have an impact on, or are impacted by the company’s decisions and actions. These stakeholder groups can include the employees, the supply chain, the end consumers, relevant government and non-government organizations, and the community where the company operates, among others. Given this, the stakeholder perspective emphasizes the need to make business decisions that will work well for all the stakeholder groups.

<b>Characteristics of Business Ethics</b>	<ul style="list-style-type: none"> <li>• Differ with persons: ethical questions do not have a unique solution but a multitude of alternatives</li> <li>• Ethical decisions are not limited to themselves, but affects a wide range of other situations as well.</li> <li>• Ethical decisions involves a trade off between cost incurred and benefits received.</li> <li>• Consequences are not clear</li> <li>• Every person is individually responsible for the ethical or unethical decision and action that he or she takes</li> <li>• Ethical actions are voluntary human actions</li> </ul>
---	--

**Importance of Business Ethics**

It is now recognized that it is good business to be ethical. An ethical image for a company can build goodwill and loyalty among customers and clients.

## IMPORTANCE OF BUSINESS ETHICS

- **Ethical motivation:**

It protects or improves reputation of the organization by creating an efficient and productive work environment. At a time of mass corporate downsizing, one of the most effective ways to appeal to the fragile loyalty of insecure employees is to promote an ethical culture, which gives employees a greater sense of control and appreciation.
- **Balance the needs and wishes of stakeholders:**

There is pressure on business to recognize its responsibilities to society. Business ethics requires businesses to think about the impact of its decisions on people or stakeholders who are directly or indirectly affected by those decisions. Companies build their image by acting in accordance with their values, whatever they might be. Creating a positive public image comes from demonstrating appropriate values. Publicizing and following a company's values allows stakeholders to understand what the company stands for, that it takes its conduct as an organization seriously.
- **Global challenges:**

Business must become aware of the ethical diversity of this world because of increasing globalization of the economy. It must learn the values of other cultures, how to apply them to its decisions, and how to combine them with its own values. In a world where transnational corporations and their affiliates account for two-thirds of the world's trade in goods, and employ 73 million people, corporations cannot afford to ignore the reality of multicultural ethics.
- **Ethical pay-off:**

They serve to protect the organization from significant risks, and to some degree help grow the business. Risks such as breaches of law, regulations or company standards, and damage to reputation were perceived to be significantly reduced.
- **Employee Retention:**

One of the major costs in business is inappropriate turnover. The loss of valuable experience and development of new personnel is a cost companies can control. Seldom is pay the primary factor in losing an employee. What would a company give to retain valuable employees? With a successful program, the employees work with managers and supervisors in making decisions based on the company's values. A successful Business Ethics program establishes a culture that rewards making the right decision.
- **Market Leadership:**

When a company fully integrates its values into its culture, quality rises due to the employee's focus on values. Customers see that the employees care about the customer's concerns. Employees reflect appropriate values in their attitude and conduct.
- **Setting the Example:**

By setting the example in the community and market, the entire industry has a new standard that allows the community and the market to recognize the company as a leader. When the word gets out, competitors will have to answer questions about why they were not establishing similar values.



### SELF CHECK 7.1

1. You have learnt the importance of business ethics. Share how business ethics have made an impact to your business.

## 7.2 DETERMINANT OF BUSINESS ETHICS

Business ethics has been developed as a result of constant interaction among a variety of factors. The following are the main factors that are influencing the ethical behavior of business:

### DETERMINANT OF BUSINESS ETHICS

#### 1) Social Factors

Ethics are basically social morals. In other words, ethical business conduct is that which is socially moral. Accordingly, it is the social values, norms, traditions, customs, etc., which prescribe business ethics and govern business conduct. And as societal norms and values go through changes, business ethics are also modified to the changing social environment.

#### 2) Economic Factors

The level of economic development also affects the nature and spread of business ethics. Generally, business ethics assume a liberal character with the development in economic spheres, particularly business activities. For example, the advertisement on mint.

#### 3) Cultural Factors

The rule of conduct for individuals as well as organizations develops under the continuous influence of cultural values. And the sources of these cultural values are historical heritage, family system, religion, education, government, etc. The continuous influence of these factors controls the form and nature of social ethics of behavior.

#### 4) Political Factors

Business ethics are also influenced by the ideology and philosophy of the political party in power. Through appropriate legislative measures, the government enforces business firms in respect of such important aspects as the business location, maintenance of quality, fair prices, fair treatment to the workers, safety measures, Prevention of pollution, etc.

### 5) Organizational Factors

Organizational factors like the philosophy and policy of the firms, attitudes of the managers, and superior-subordinate relations have a great impact on the ethical perception and judgment of business managers and succeeding behavior.

### 6) Institutional Codes

Business conduct is also governed by codes of conduct prescribed by various sectoral institutions.

The codes of ethical behavior have been prescribed by professional bodies like the Institute of Chartered Accountants of India, the Institute of Costs and Works Accountants of India, the Institute of Company Secretaries of India, and the All India Management Association for their respective members.

Organizations act as Chambers of Commerce and Industry and Trade Associations have also formulated codes of conduct for business enterprises. Such rules of conduct act as trend-setters and create a helpful environment for business firms to adopt ethical behavior.

## 7.3 HOW MANAGERS CAN IMPROVE ETHICS AMONG THEIR EMPLOYEE

It is important for managers to focus on accomplishing company goals while developing good relationships in the workplace but it is equally important to focus on ethical conduct among employees. Unethical behavior in the workplace has been around since the beginning of time but that doesn't mean it has to be acceptable in your company. Every company should have a code of ethics in place that represents the company's values, responsibilities, and conduct expectations. It should act as a moral compass that guides employees in handling ethical dilemmas. Ethical conduct will ensure that your business maintains a reputation of professional principles and values. Here are a few ways managers can promote ethical conduct among their staff.

### WAYS MANAGERS CAN ENCOURAGE ETHICAL BEHAVIOR

#### Training

You can't expect your employees to follow your code of ethics if they don't know what it is. As part of the onboarding process employees should be educated on your code of ethics and why it's important. They should also have a clear understanding of the ramifications if they fail to behave ethically. Managers should also hold regular workshops on ethics and demonstrate how employees can solve problems ethically. Use examples and role play to give employees opportunities to work through various dilemmas. The more you train



	employees and place an emphasis on the importance of ethical behavior the more your staff will understand what is expected in the workplace.
<b>Rewards</b>	Oftentimes companies expect ethical behavior but they fail to acknowledge it. If managers really want to promote ethical behavior they need to reward it when they see it. If a manager catches an employee doing something right, they should stop and thank them. Managers could also implement a system where employees can anonymously submit examples of their colleagues behaving ethically. Ethical behavior should be included in performance reviews and managers can encourage it by showing gratitude when they see it.
<b>Lead by Example</b>	If managers want their staff to behave ethically then they must understand that it starts with them. Employees generally follow the examples set forth for them by management. If managers hold themselves to a high standard of ethical behavior then they have credibility when they expect the same thing from their employees. If everyone is on the same page it becomes easier for the team as a whole to adopt the same types of ethical behaviors.
<b>Treat Employees Well</b>	Managers really need to reflect on their current operating methods. If management is emphasizing the importance of ethics at work but doesn't treat its own employees fairly, it becomes hypocritical. When managers are respectful to their staff they are able to develop a trusting relationship that encourages ethical behavior. Therefore, managers need to consider the company's decisions to hire, train, promote, and pay employees. They also need to make sure that what they are asking of their employees is reasonable. When managers show that they are invested in the success and well-being of their employees, it creates a company culture that is built on ethical principles.

### Points to Ponder/Takeaways

- Ethics refers to well-based standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. ethics refers to the study and development of one's ethical standards.
- There are 6 determinants of business ethics.

- Managers can improve ethics among their employees by
  1. Training
  2. Rewards
  3. Lead by Example
  4. Treat Employees Well

## References

1. <https://www.mbaknol.com/business-ethics/introduction-to-business-ethics/>
2. <https://managementtraininginstitute.com/ways-managers-can-encourage-ethical-behavior/>