

# PROFESSIONAL ETHICS IN BUSINESS

## LECTURE TWELVE

### PROFESSIONAL ETHICS

Ethics in Workplace – Formulation of Ethics – Managerial Ethics – Managing Ethical Behaviour – Codes of Ethics – Encouraging Ethical Behaviour – Social Responsibility – Spirituality.

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### INTRODUCTION TO ETHICS

The word “ethics” is derived from the Greek word “ethos”, which refers to character. Webster defines ‘ethics’ as “The discipline dealing with that which is good and bad and with moral duty and obligations”.

### MEANING OF BUSINESS ETHICS

“Business Ethics” deals with morality in the business environment. It involves moral judgments, based on the understanding of the norms of society. Ethics extends beyond the legal question and involves goodness or badness of an act. Therefore, an action may be legally right but ethically wrong. Example: In a small village, a trader may charge a high price for his product; and legally he may be entitled to do so but morally, this is not fair.

The study and examination of moral and social responsibility in relation to business practice and decision making in business is known as “Business Ethics”.

The term “business” is commonly referred to the commercial activities achieved at making profit. But gradually there is a substantial change in the way in which people viewed the business. In the past primary objective of a business was profit maximization but the present perspectives on business objectives is not maximization. It is profit

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maximization in long run besides fulfilling the ethics in the business. A business is regarded as social institution forming integral part of social systems .The business is viewed as subsystem to the social system. This is because any type of social system is influenced by:

1. The way the business functions
2. The organization of the business
3. Innovations
4. Transmission and diffusion of information.
5. New ideas etc.

They have either direct or indirect effect on the society.

Business Ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.

When business people speak about “business ethics” they usually mean one of three things: (1) avoid breaking the criminal law in one’s work-related activity; (2) avoid action that may result in civil law suits against the company; and (3) avoid actions that are bad for the company image. Businesses are especially concerned with these three things since they involve loss of money and company reputation.

### **ETHICS IN WORK PLACE:**

Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace. Going beyond what is considered legal in the area where the business operates, workplace ethics inspire communication between employees, allow for respect to be extended to each person within the organization, and promote customer relationships that are based on honesty and integrity. While there are core elements that tend to define a work-based code of ethics, the specific expressions of these central values vary from one corporate setting to the next.

It is important to remember that workplace ethics are shaped by two important factors. First, workplace policy must be in harmony with all laws and regulations that are currently in force in the jurisdiction where the business operates. This helps to ensure that basic workplace ethics preclude any pressure or coercion to engage in actions that are considered to be illegal, promote discrimination in the workplace, support unfair hiring

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and firing practices, or allow wages to be set that are below the minimum legal standards for the area.

Along with being shaped by laws and regulations, workplace ethics are also influenced by business ethics. For example, ethical business practices would include actions such as not using marketing materials or campaigns that mislead consumers. Workplace ethics would also involve establishing and operating support networks such as wellness programs that help employees be healthy and happy. Ethics of this type would also involve the conscious effort to cultivate a working environment where people want to come to work and be productive because of pride in what they do for a living.

While businesses tend to comply with laws and regulations set by local jurisdictions, not every company sees the need to develop workplace ethics that affirm the worth of employees and motivate them to be productive on the job. When a company chooses to do no more than what is required by local law, the chances of heavy employee turnover are much higher. In addition, it is easier for cliques to develop among certain groups of employees, a state that can often undermine productivity and cost the company a great deal in terms of time and revenue generation.

### **FORMULATION OF ETHICS:**

Family Ethics are formulated through the operation of five forces in the individual's environment:

1. Influences: the formulation of ethics begins when the individual is a small child parents demonstrate high ethical standards.
2. Peer Influence: As the child develops contacts outside the home through school, play and work, peer exert considerable influence on the individuals ethical beliefs
3. Experience: As a person matures and develops as a human being, he or she will be exposed to many critical experiences that will affect his or her ethical standards.
4. Values and Morals: People who have high value on money and material possessions may have strong ethical standards. People who value the quality of life enjoyed by all living creatures will have strong ethics.
5. Situational Fact us: People often change their ethics in response to unforeseen situational fact us.

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### MANAGERIAL ETHICS:

Managerial ethics illustrate a rather sensitive issue. The recent business history has proven ethics as a rather challenging objective of larger organizations. The following topics / views may illustrate fundamental issues in the current debate. The current competing views include "Maximize Profit" and "society's welfare".

Maximizing profits illustrate the greatest commitment to shareholder and stakeholders. In this particular theory, the managerial staff is only committed to maximize the bottom-line in terms of profit: a mean to an end in order to achieve the highest possible profits. Society's welfare illustrates a common goods approach.

In this particular approach managerial staff attempts to achieve a balance between the bottom-line and social welfare of the society and employees. It is of great interest to explore the theoretical aspects of managerial issues and compare them to real practices.

The two above name theories assume that managerial issues are constrained and objective; stakeholders vs. society. On the other hand, the reality proves a rather multi dimensional reality; stakeholders vs. society vs. culture vs. religion vs. politics vs. diversity vs. personality vs. globalization vs. many other unpredictable factors. Further, both of theories appear to be better suited for larger organizations: small businesses encounter more immediate issues such as revenue and cash flow rather than managerial ethics.

Most small businesses ran by savvy business people are less concerned about ethics. Out of extensive experience in consulting small businesses, I can confidentially stat that I have never met a small business owner that was not willing to take unethical actions in order to maximize profits. Given the fact that this is not a scientific statement, it is important to view this statement in terms of personal experiences, which conflicts with the academic management practices.

Moreover, there is more to the issue of ethics. Given the fact that both competing theories consider some sort of managerial responsibility to someone or some group, illustrates a major weakness of both theories. Both theories fail to point to the necessity of "perception". It is hypocritical to expect only one segment of a society i.e. businesses to create value or consider societal consequences.

Thus, most business simply attempt to create a perception of societal responsibilities rather than genuine concerns In terms of creating profits, it is important to understand

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that in practical terms, it is difficult to create social awareness or consider social issues without being able to prove their value to the business shareholder or stakeholder. Thus, any managers' first priority should be profits, once the objective of achieving the highest possible profits have been achieved, an organization can effort to pursue alternate goals of societal concerns and improvement. Some people may argue that societal benefits / concerns may have a direct influence on the bottom line of any given business.

However, it is important to point to the fact that it is extremely difficult to quantify the direct impact of societal charity work on corporate profits. It is merely possible to use anecdotal and qualitative data in order to assign arbitrary real value to such social actions. Ultimately, it is important to consider the main goal of any given company i.e. profits. It is further important to allow for businesses to pursue and achieve their goals before they can be expected to become beneficial corporate citizens.

### **MANAGINIG ETHICAL BEHAVIOUR:**

Managing ethical behavior is a one of the most pervasive and complex problems facing business organizations today. Employees' decisions to behave ethically or unethically are influenced by a myriad of individual and situational factors. Background, personality, decision history, managerial philosophy, and reinforcement are but a few of the factors which have been identified by researchers as determinants of employees' behavior when faced with ethical dilemmas. The literature related to ethical behavior is reviewed in this article, and a model for understanding ethical behavior in business organizations is proposed. It is concluded that managing ethics in business organizations requires that managers engage in a concentrated effort which involves espousing ethics, behaving ethically, developing screening mechanisms, providing ethical training, creating ethics units and reinforcing ethical behavior.

### **CODES OF ETHICS:**

**Definition:** Written guidelines issued by an organization to its workers and management, to help them conduct their actions in accordance with its primary values and ethical standards.

A code of ethics is a set of guidelines which are designed to set out acceptable behaviors for members of a particular group, association, or profession. Many organizations govern themselves with a code of ethics, especially when they handle sensitive issues like investments, health care, or interactions with other cultures. In addition to setting a

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professional standard, a code of ethics can also increase confidence in an organization by showing outsiders that members of the organization are committed to following basic ethical guidelines in the course of doing their work.

The format of a code of ethics can vary widely. Unlike more straightforward employee guidelines and codes, a code of ethics usually starts with a section that sets out the purpose, aspirations, and goals of the parent organization. For example, the 2002 code of ethics for the American Psychological Association (APA) begins: "Psychologists are committed to increasing scientific and professional knowledge of behavior and people's understanding of themselves and others and to the use of such knowledge to improve the condition of individuals, organizations, and society."

Following a general introduction to the function and goals of an organization is a section dedicated to setting out specific behavior standards for members. This section usually covers potential ethical issues such as confidentiality, partisanship, or misuse of information. In addition to addressing theoretical ethical minefields, a code of ethics often contains a section which outlines the procedures for handling grievances, both outside and inside the organization.

A well written code of ethics will be easy to follow and very clear, with sections that people can point to in order to illustrate specific issues. In the sense of organizations like the APA, members agree to support the code of ethics both because it is good practice and because it promotes their organization. A code of ethics also stands behind most scientific experimentation, ensuring that the results are valid and that the testing was carried out in an ethical way.

A code of ethics: A **code of ethics** often focuses on social issues. It may set out general principles about an organization's beliefs on matters such as mission, quality, privacy or the environment. It may delineate proper procedures to determine whether a violation of the code of ethics has occurred and, if so, what remedies should be imposed. The effectiveness of such codes of ethics depends on the extent to which management supports them with sanctions and rewards. Violations of a private organization's code of ethics usually can subject the violator to the organization's remedies (such as restraint of trade based on moral principles). The code of ethics links to and gives rise to a code of conduct for employees.

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### **ENCOURAGING ETHICAL BEHAVIOUR:**

Most authorities agree that there is room for improvement in business ethics. One of the most problematic questions raised in relation to business ethics is whether or not businesses can become more ethical in the real world. The majority opinion on this issue suggests that government, trade associations, and individual firms can indeed establish acceptable levels of ethical behavior.

The government can do so by legislating more stringent regulations. But, rules require enforcement and when in many cases there is evidence of lack of enforcement even the ethical businessperson will tend to "slip something by" without getting caught. Increased regulation may help, but it surely cannot solve the entire business ethics problems.

Trade associations can and often do provide ethical guidelines for their members. These organizations within particular industries are in an excellent position to exert pressures on members that stoop to questionable business practices. However, enforcement and authority vary from association to association. Moreover, exactly because trade associations exist for the benefit of their members, harsh measures may be self-defeating. Employees can more easily determine and adopt acceptable behavior when companies provide them with a "code of ethics." Such codes are perhaps the most effective way to encourage ethical behavior. A code of ethics is a written guide to acceptable and ethical behavior that outlines uniform policies, standards and punishments for violations. Because employees know what is expected of them and what will happen if they violate the rules, a code of ethics goes a long way towards encouraging ethical behavior. However, codes cannot possibly cover every situation. Companies must also create an environment in which employees recognize the importance of complying with the written code. Managers must provide direction by fostering communication, actively modeling and encouraging ethical decision making, apart from investing in training employees to make ethical decisions.

Sometimes, even employees who want to act ethically may find it difficult to do so. Unethical practices can become ingrained in an organization. Employees with high personal ethics may then take a controversial step called "whistle blowing." Whistle blowing is informing the press or government officials about unethical practices in an organization. Whistle blowing could have averted disaster and prevented needless deaths in the Challenger space shuttle disaster, for example. How could employees have known

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about life-threatening problems and let them pass? Whistle blowing on the other hand, can have serious repercussions for employees; those who make waves sometimes lose their jobs.

Recent literature has suggested several strategies for promoting ethical behavior in organizations (Adler and Bird, 1988; Burns, 1987; Harrington, 1991; Raelin, 1987; Stead et.al., 1990). First, chief executives should encourage ethical consciousness in their organizations from the top down showing the support and care about ethical practices. Second, formal processes should be used to support and reinforce ethical behavior. For example, internal regulation may involve the use of codes of corporate ethics, and the availability of appeals processes. Finally, it is recommended that the philosophies of top managers as well as immediate supervisors focus on the institutionalization of ethical norms and practices that are incorporated into all organizational levels.

Organizations and their managers must understand that the above recommendations are key components in the development and maintenance of an ethically-oriented organizational culture. Organizations can also enhance an ethically-oriented culture by paying particular attention to principled organizational dissent. Principled organizational dissent is an important concept linking organizational culture to ethical behavior. Principled organizational dissent is the effort by individuals in the organization to protest the status quo because of their objection on ethical grounds, to some practice or policy (Graham, 1986). Organizations committed to promoting an ethical climate should encourage principled organizational dissent instead of punishing such behavior.

Organizations should also provide more ethics training to strengthen their employees' personal ethical framework. That is, organizations must devote more resources to ethics training programs to help its members clarify their ethical frameworks and practice self-discipline when making ethical decisions in difficult circumstances.

An effective organizational culture should encourage ethical behavior and discourage unethical behavior. Although much remains to be learned about why ethical behavior occurs in organizations and creating and maintaining organizational cultures that encourage ethical behavior, organizations can benefit from the following suggestions:

**\*\* Be realistic in setting values and goals regarding employment relationships. Do not promise what the organization cannot deliver.**

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\*\* Encourage input throughout the organization regarding appropriate values and practices for implementing the cultures. Choose values that represent the views of employees at all levels of the organization.

\*\* Do not automatically opt for a "strong" culture. Explore methods to provide for diversity and dissent, such as grievance or complaint mechanisms or other internal review procedures.

\*\* Insure that a whistle-blowing and/or ethical concerns procedure is established for internal problem-solving (Harrington, 1991).

\*\* Provide ethics training programs for all employees. These programs should explain the underlying ethical and legal (Drake and Drake, 1988) principles and present practical aspects of carrying out procedural guidelines. Understand that not all ethical situations are clear-cut. Like many basic business situations, the organization should recognize that there are ambiguous, grey areas where ethical tradeoffs may be necessary. More importantly, some situations have no simple solution (Cooke, 1991).

\*\* Integrate ethical decision-making into the performance appraisal process.

### **SOCIAL RESPONSIBILITY:**

#### **Definitions of Social responsibility:**

- Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility to society at large. ...
- A voluntarily assumed obligation toward the good of a larger social unit as opposed to the self alone
- Occurs when a retailer acts in the best interests of society -- as well as itself. The challenge is to balance corporate citizenship with a fair level of profits.
- It is about improving the quality of relations with key stakeholders. Novo Nordisk defines it as putting values into action in the perspective of human resources, human rights, health and safety, and our relations with society at large.
- Responsibilities citizens have to their society and nation.
- Involves considering the impact and being accountable for the effects that actions might have on society.
- It can be defined as accepting responsibility for others and taking action against social injustice. it includes meeting the needs of others through charitable giving.

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- Koontz and O'Donnell have given the definition of social responsibility thus:  
“The personal obligation of the people as they act in their own interests to assure that the rights and legitimate interests of others are not infringed.”

### **SOCIAL RESPONSIBILITIES OF BUSINESS**

A firm expresses its responsibility to the society by reacting in either or both of the following two ways.

1. The manner in which it carries out its own business activities
2. The welfare activities it takes upon itself as an additional function

### **RESPONSIBILITY TO SHARE HOLDERS**

1. To make the shareholders feel secured by protecting their investments
2. To be transparent
3. To allow them to participate in decision making
4. To ensure them good dividends

### **RESPONSIBILITY TO EMPLOYEES**

1. To offer employees fair wages
2. To establish better working conditions
3. To provide them fair work standards and norms.
4. To provide labor welfare activities
5. To educate the employees by adopting proper training methods.
6. To recognize and appreciate the work of the employees and reward them or to promote them.
7. To install grievance handling cell.
8. To enable them to involve in decision making.

### **RESPONSIBILITY TO CONSUMERS**

1. To improve the efficiency of the business by
  - a) Increasing productivity.
  - b) Improving quality.
  - c) Smoothening distribution system.
2. To offer the products at reasonable prices.
3. To provide pre-purchase and post purchase service to the consumers.
4. To facilitate research and development to meet the customer requirements.
5. To maximize imperfections in distribution systems

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6. To provide sufficient and unnecessary information about the product.

### **RESPONSIBILITY TO COMMUNITY**

1. To be pollution free and maintain ecological balance.

2. To invest more in research and development so as to improve the standard of living of the society.

3. To develop alternative recourses thereby preventing current resources being used from exhaustion.

4. To improve the efficiency of business operations.

5. To include in social welfare activities

6. To contribute to national effort to build up a better society

If a firm fulfills all the above mentioned responsibilities then it is said to be following the business ethics. But in practice such an ideal business doesn't exist.

### **FEW ENVIRONMENTAL CONCERNS**

One important factor a business man must not neglect is his responsibility to environment. The abundant natural resources are getting exhausted after 19<sup>th</sup> century due to rapid industrialization.

#### **Land:**

The worst effected are as their cattle starve and they travel even increasing distance for grazing due to industrialization and urbanization.

#### **Water:**

Through people are keen in this issue by constructing dams and reservoirs the bi products and industry waste couldn't find a better discharge channel than this. Hence sure measure must be take in this context to keep the water free from pollution.

#### **Deforestation:**

The results of deforestation for industrialization and urbanization are vulnerable. It is resulting in destruction of wild life, increase in price of wood, air production etc.

#### **Habitat:**

The people who are living in forests and remote areas love their shelter and livelihood in the vent of industrialization.

#### **Health:**

The business users must be conscious about the health of the society and behave responsibility for their health.

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### **SPIRITUALITY (Spirituality & Ethics)**

Today people are finding that there's more to life—and business—than profits alone. Money as the single bottom line is increasingly a thing of the past. In a post-Enron world, values and ethics are an urgent concern. The hottest buzz today is about a “triple bottom line,” a commitment to “people, planet, profit.” Employees and the environment are seen as important as economics. Some people would say it's all about bringing your spiritual values into your workplace. A recent poll by KRC Research for Spirituality published November 17, 2003 in USA Today found that 6 out of 10 people say workplaces would benefit from having a great sense of spirit in their work environment.

What is spirituality in business? There's a wide range of important perspectives. Some would say that it's simply embodying their personal values of honesty, integrity, and good quality work. Others would say it's treating their co-workers and employees in a responsible, caring way. For others, it's participating in spiritual study groups or using prayer, meditation, or intuitive guidance at work. And for some, it's making their business socially responsible in how it impacts the environment, serves the community or helps create a better world.

Some business people are comfortable using the word “spirituality” in the work environment, as it's more generic and inclusive than “religion.” Instead of emphasizing belief as religion does, the word spirituality emphasizes how values are applied and embodied. Other people aren't comfortable with the word spiritual and prefer to talk more about values and ethics when describing the same things that others would call spiritual. However, there are some people who will talk about God as their business partner or their CEO.

There's some fear about spiritual beliefs or practices being imposed by employers, but to date this has been extremely rare. On the other hand, some observers warn about the potential for superficiality and the distortion of spiritual practices to serve greed.

Key spiritual values embraced in a business context include integrity, honesty, accountability, quality, cooperation, service, intuition, trustworthiness, respect, justice, and service. The Container Store chain nationwide tells workers they are “morally obligated to help customers solve problems” – they're not just to sell people products. The CEO of Vermont Country Store, a popular national catalogue company, honored

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(instead of fired) an employee who told the truth in a widely circulated memo, and so increased morale and built a sense of trust in his company.

Spirituality plays a key role in the development of ethical leaders. Moreover, spirituality demands that leaders cultivate and nourish a sense of self that recognizes the interrelatedness of life or a sense of community. A sense of community refers to the larger extended ecological sphere made tangible by nature, defined as the universe and the cosmos, but in its final essence, it is spirit.

Spirituality is the core of the inner and social lives of ethical leaders. It informs the relationship between the private and public spheres of leadership at the intersections where worlds collide. How then do leaders utilize spirituality as a resource in making fitting ethical decisions in the various contexts and situations that lead to transformation of powerful, intransigent systems?

The relationship among spirituality, ethics, and leadership is important because leaders in many public venues are increasingly turning to approaches that emphasize some form of spirituality as an authoritative source in making decisions that impact the lifestyles, attitudes, and behaviors of many people, especially in the areas of education, government, health, science, and business. Often these appeals to spirituality fail to address the larger ethical questions of justice, equity and truth-telling that are raised in public life.