

UNIT V SERVICE BUSINESS - III

CHAPTER

18

BUSINESS ETHICS AND CORPORATE GOVERNANCE



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-குறள் 423

Couplet:

To discern the truth in everything, by whomsoever spoken, is wisdom.

Learning Objectives

To enable the students to

- have better understanding of the concept of business ethics
- identify the Key elements of business ethics
- know the code of business ethics
- understand the Corporate Governance and International Benchmarks and MNC's in India

In this chapter the important concept of business ethics is discussed briefly. Business ethics is vital for the running of all organisations both in the short and the long run. The Code of Conduct of business units are clearly defined and executed in terms of transparency through corporate Governance. The role of MNCs in the development of the economy is explained along with the features. The need for international benchmarking is also highlighted.

18.01 Concept of Business Ethics

'Business houses need to go beyond the interests of their companies to the communities they serve.'

Ratan Tata, Former Chairman of the Tata group

'A business that is in the making of only money is a poor kind of business.'

Hendry Ford, Founder of Ford Motor Corporation.

Ethics is derived from the Greek word 'ethos' which means a person's fundamental orientation towards life. It governs the behaviour, derived from the moral standards which help to determine right or wrong, good or evil. Ethical behaviour is the acts consistent with the moral standards or codes of conduct established by society. It may change over time and differ from culture to culture. For example, political bribes or payoffs may be acceptable in one culture but not in other. Ethical issues are inevitable in business.

Business ethics may be defined as a set of moral standards to be followed by owners, managers and business people. These standards determine the conduct and behaviour of business people. Business ethics reflects the conduct in the context of business.

Business Ethics

Business exists to supply goods and services to the people from social point of view but from individual point of view, the primary objective of any business unit is to make profit. The individual objective should not be in conflict with societal objective. These two objectives normally contradict each other, as one business enterprise may be good in individual objective and bad at societal objective and vice versa. This raises the question of what is right and what is wrong. The subject matter of ethics is concerned with establishing linkages between individual good and social good.

Ethical standards are often enacted into laws. For example charging fair prices to customers, using fair weights for measurement of commodities giving fair treatment to workers, earning reasonable profits etc.



All business units have realised that ethics is vitally important for the existence and progress of the business as well as the society. It is very important as it improves public image, earns public confidence, and leads to greater success. Ethics and profits go together in the long run. It enhances the quality of life, standard of living and business.

18.02 Key Elements Of Business Ethics

Some of the basic elements of business ethics while running a business enterprise are:

1. Top Management Commitment

Top management has a very important role to guide the entire organization towards ethical behaviour. The top level personnel in any organisation should work openly and strongly committed towards ethical conducts and guide people working at middle and low level to follow ethical behaviour.

2. Publication of a "Code"

Generally organisations formulate their own ethical codes for the conduct of the enterprise; it should followed by the employees of the organisation. The organisation principles are defined in the written document called code. The code of conduct covers various areas such as health and safety in the work place, fair dealing in selling and marketing activities, ethical practices in the business etc.

3. Establishment of Compliance Mechanism

To make sure that actual decisions match with a firm's ethical standards, suitable mechanism should be established. Any organisation following ethical codes in

training, recruitment, selection etc., is sure to be profitable. The organisation must provide for an environment where the employees are free to report about the matters of unethical behaviour.

4. Involving Employees at All Levels

It is the employees at different levels who implement ethics policies to make ethical business a reality. Therefore, their involvement in ethics programmes becomes a must. For example small group of employees can be formed to discuss the important ethics policies of firms and examine attitudes of employees towards these policies.

5. Measuring Results

The organisations from time to time keep a check on ethical practise followed. Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards. The top management team and other employees should then discuss the results for further course of action.

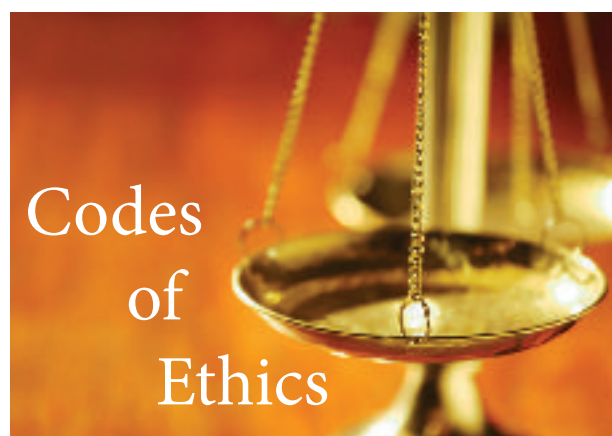
18.03 Code of Business Ethics

Code of ethics documents the generally accepted principles of ethical conduct. They are statements of values and principles which define the purpose of an organisation. It gives a clear picture of the standards that

employees should follow .It guides them in decision making.

The code of business ethics can include the following:

1. To offer goods at fair prices.
2. To supply quality goods and not to deal in spurious and sub standard products.
3. To listen to consumer's complaints and to reduce them.
4. Not to raise the price of its products unjustifiably.
5. Not to resort to hoarding and black marketing.
6. Not to resort to price cutting with the sole aim of killing competition.
7. Not to issue advertisement containing false information or exaggerated claims.
8. To pay fair wages to its employees and not to exploit them.
9. To provide congenial work atmosphere.
10. To design production process in such a way as to reduce environmental pollution.
11. To keep proper books of accounts and records.
12. To pay taxes regularly.
13. Not to overlook Government rules and regulations even at the time of incurring losses.



18.04 Corporate Governance

‘The proper governance of companies will become as crucial to the world economy as the proper governing of countries.’

*Jeames Wolfenson,
President of World Bank, 1999*

Meaning of Corporate Governance

Corporate Governance is the system by which businesses are directed and controlled in the best interests of all stakeholders. Corporate Governance lays emphasis on ethics, fair business practices, transparency, disclosure and conduct of business for the benefit of all stakeholders.

Corporate governance specifies the rights and liabilities of different groups of people like the chief executives, directors of the board, managers of different departments and other stakeholders. This helps to provide the structure through which the objectives of the company are formulated and their performance is monitored.

Corporate Governance maintains balance among individual goals, societal goals, economic goals and social goals. For example, companies like Infosys, Wipro, Reliance, Hindustan Unilever Ltd. etc. have implemented corporate governance codes which ensure ethical and efficient conduct leading to their development.

Definitions

There are different definitions contributed by various authors. Some important definitions are as follows.

“Corporate governance is about promoting fairness, transparency and accountability.”

- World Bank

“Corporate governance is defined as the system by which companies are directed and controlled.”

- Cadbury committee

Benefits of Corporate Governance

Balanced economic development is made possible through transparent management under corporate governance. All stakeholders' interests are protected and promoted through corporate governance. Some of the benefits of corporate governance are as follows

1. Good corporate governance enables corporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.
4. Improves investors' confidence and enables raising of capital.
5. Reduces the cost of capital for companies.
6. Has a positive impact on the share price.
7. Provides incentive to managers to achieve organizational objectives.
8. Eliminates wastages, corruption, risks and mismanagement.
9. Improves the image of the company.
10. The organization is managed to benefit the stakeholders.
11. Ensures efficient allocation of resources.
12. Creates a strong brand as an ethical business.



Multinational Corporations in India

Meaning

Indian economy is growing over the lengths and breaths and establishes businesses earning huge profit. Companies have grown in their size (capital and number of employees) competing with different countries companies. The concept of Multinational Corporation has gained significance over a period of time as it has its business globally in different countries.

Definition

MNC is defined to be an enterprise operating in several countries but managed from one country.

A Multinational corporation is an organization doing business in more than one country. It engages in various activities like exporting, manufacturing in different countries.

MNC is company which functions with a head quarters based in one country, while other facilities are based in other location.

Any company is referred to as a Multinational company or corporation (MNC) when that company manages its operation or production or service delivery from more than a single country. It has its headquarter based in one country with several other operating branches in different other countries. The country where the head quarter is located is called the home country whereas; the other countries with operational branches are called the host countries. Apart from playing an important role in globalization and international relations, these multinational companies even have notable influence in a country's economy as well as the world economy. The

budget of some of the MNCs are so high that at times they even exceed the GDP (Gross Domestic Product) of a nation.

Features of MNCs

The main features or elements of MNCs are as follows

1. Considers opportunities throughout the globe though they do the business in a few countries.
2. To invest considerable portion of their assets internationally.
3. They are huge industrial/business organisation.
4. It engages in international production and operates plants in a number of countries.
5. They take managerial decisions on a global perspective.
6. They produce in one or a few countries and sell them in most of the countries.
7. Their international operations are integrated into the corporations overall business.

Why MNC's in India

The reasons for so many MNC's in Indian are as follows

1. India has a huge market
2. It is one of the fastest growing economies in the world.
3. Favorable policies of the government towards FDI.
4. Financial liberalization of the country after 1991.
5. Government encourages and makes continuous efforts to attract foreign investment by relaxing policies.

Highlights (2015)

India ranks 10th in the world in factory output

The manufacturing sector accounts for 27.6% GDP

Privatisation of certain public sector industries

Liberisation also attracted MNC's and encouraged local entrepreneurs

Indian stands 15th in services output

Increased demand from foreign consumers for Indian products and services

India has an extensive network of undersea fibre-optic cables leading to India becoming the centre for outsourcing of business process

India has become big employment generator especially amongst young graduates.

India has witnessed sustained economic development as envisioned by our forefathers

Top MNC's in India

Following are the names of some of the most famous multinational companies

The entry of MNC's into India have proved quite beneficial for the growth and development of Indian economy providing employment opportunities for the young generation.

IBM Microsoft

Pepsi Co Sony

Vodafone Reebok Nokia

Key Terms

Behaviour Moral Mechanism
Atmosphere Fair Prices Monitor



For Own Thinking

1. Illustrate the ethical practices followed by different reputed organisation giving practical examples.
2. Create case studies concerning the existing famous organisation following ethical practices quoting their real life practice
3. Identifying ethical codes based on which organisation exists, for long run and short run, justifying the adherence of code of ethics.



For Future Learning

1. Money earning cannot be sole objective of business or life.
2. The mind of students to accept that ethics and consideration for environment, law etc can lengthen the income earning of an individual or business



Exercise

I. Choose the Correct Answer

1. Which of the following helps in maximising sale of goods to society?
 - a) Business success
 - b) laws and regulations



- c) Ethics
- d) Professional management

2. Ethics is important for

- a) Top management
- b) Middle level managers
- c) Non managerial employees
- d) All of them

3. Which of the following does not ensure effective ethical practices in a business enterprise

- a) Publication of a code
- b) Involvement of employees
- c) Establishment of compliance mechanisms
- d) none of them

4. The role of top management is to guide the entire organisation towards

- (a) General behaviour
- (b) Organisavtion behaviour
- (c) Ethically upright behaviour
- (d) Individual behaviour

5. The ethical conduct of employees leading to standard practices results in

- (a) good behaviour
- (b) bad behaviour
- (c) ethical behaviour
- (d) correct decision making

Answers

1.c 2.d 3.a 4.c 5.d

II. Very Short Answer Questions

1. What is Ethics?
2. Write any two key elements of Business Ethics.
3. Define Corporate governance.

III. Short Answer Questions

1. What do you mean by the concept of Business Ethics?
2. Why MNC's in India? (any 3)

IV. Long Answer Questions

1. Explain the different key elements of Business Ethics.
2. What are the benefits of Corporate Governance? (any 5)

Reference

1. Business Environment – C.B.Gupta
2. Business Studies – Dhanpat Rai
3. Business Ethics and Values –Dr. Neeru Vasishth and Dr. Namita Rajput