ETHICS AND BUSINESS

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ABSTRACT

LIBOR scandal, money laundering, insider trading, bribery charges on one of the biggest retailer of US, such incidents have gained disproportionate attention in business news and dailies in the last decade. Suddenly a new breed of regulatory bodies and legislations like Foreign Corrupt Practices Act of US has come into limelight. Post 2008 financial crises even some of the iconic names of finance industry and business honchos who had become demi-Gods have lost their credibility. Further, with the globalization and multinational characteristic of corporations becoming predominant the contagion effect of such wrong business practices becomes humongous. So what's going wrong in business arena and what is the need of the hour? Business think tank is rightly pointing finger at the poor moral and ethical standards at work place. Greed and dangerous short cuts to success are in conflict with morals, while taking business decisions. This paper aims to explore the main ethical issues that are bothering various commercial sectors and what are the recent steps which are taken to resolve and mitigate the loss caused due to unethical business practices, so that we can have sustainable businesses which meet the triple bottom lines or 3 Ps of reasonable profit, a worth living planet and happy people.

KEYWORDS: Ethics, Sustainable, Triple Bottom Line and Profit

Introduction:

The success of a business is getting more clearly linked with the ethics and morals with which a business is operating. Also goals of a business need to be in tune with the concerns of the society. Therefore, for a business to be sustainably successful needs to integrate ethics with its strategy (Smart, Barman and Gunasekera, 2010). Business ethics has gained lots of deliberation in the last two decades. There is a growing alarm for ethical issues in enterprises as evident from wider coverage of this subject in academics, media, board rooms and activists (Lefebvre & Singh 1992). Also the financial crisis of 2008 has put question mark on the conscience of few financial mammoths, which were earlier considered 'too big to fail'. The scandals reported in the recent past, such as LIBOR rigging,money laundering and insider trading, has brought shame to some of the iconic corporations and their honchos. Further, globalization of corporations has created multifold accountabilities to laws governing various nations, as evident from fresh enquiries conducted into the questionable practices of Wal-Mart in Mexico and India under Foreign Corrupt Practices Act of US.

Business ethics refer to the generally accepted and recognized ethical conduct in business and the ways in which these standards are established (Boatright 2000). The emphasis on ethical business practices is rightly imposed by Milton Friedman's memorable words that 'Business is a game in which the profit has to be made by staying within the rules of the game' (Boatright 2000). The word ethics has been derived from a Greek word ethos meaning 'character' or 'custom'. These are the established standards which recommend what one should do as their duty to be fair and beneficial to the society and thus help in decision making in context to divergent values (Lugli, Kocollari & Nigrisoli 2009).

Another dimension of business ethics is Corporate Social Responsibility (CSR) which is also widely studied by social researchers (Konrad, Steurer & Martinuzzi 2006). Many formal documents have become indispensable to keep a check on CSR and other ethical activities of corporations like environmental reporting, social audit reports, code of conducts or ethics, code of fair practices etc. According to World Economic Forum 2005 the six burning issues which academia, government and business collectively need to address immediately are:

1. Poverty
2. Climate Change
3. Equitable globalization
4. Education
5. Middle East Instability
6. Governance

(http://www.kpmg.com.au/aci/docs/rassas_view-from-the-top200510.pdf)

Recent Issues in Business Ethics

Corruption and Bribing: Even the biggest of the corporate giants could not be insulated from corruption charges. The widespread allegations of corruption on Walmart's Mexican subsidiary has shaken the compliance claims made by U.S. corporations. Not only this Walmart's Indian operations were snubbed at a very nascent stage by bribing issues in its supply chain. Not only US federal authorities even shareholder's of Walmart have filed suit against it for duping their interest by following corrupt practices. Another giant corporation which has been dragged into corrupt allegations is J P Morgan for hiring relatives of top Chinese officials in their organization to get favors for establishing business there. Because of this widespread malice of corruption,the image of India as a business destination has taken a huge hit. In spite of FDI in multi brand retail getting opened up, international retail giants are thinking twice before venturing into India due to the issue of red tapism.

Financial Frauds and Poor Risk Management: Enron, WorldCom, Lehman Brothers, Bear Sterns are the companies which have perished today because they targeted short term gains at the cost of their ethics and morals. Companies like Mc Donald are facing lots of bad publicity because its unhealthy menu is causing obesity among the kids. In a recent episode of financial fraud, Reebok India suffered a financial loss of Rs. 870 crores along with the huge reputational loss to the brand. This fraud highlighted the irregularities in reporting and management of the company and the serious damage financial irregularities can cause. Another scam which shook the international financial markets is LIBOR scandal where very reputed and widely benchmarked London Interbank Offered Rates were rigged by some of the most reputed multinational financial behemoths like Barclays Bank, because of which its head resigned and the bank also was heavily penalized. The Libor is an average interest rate calculated through submissions of interest rates by major banks in London. The scandal arose when it was discovered that banks were falsely inflating or deflating their rates so as to profit from trades, or to give the impression that they were more creditworthy than they were. Infact financial recklessness and greed of big U.S. financial corporate like Lehman Brothers led to 2008 financial crisis the aftermaths of which are still felt across the world and economies are paying heavily for it.

Labor Exploitation: These days a business not only should be clean in its own operations rather the whole of its supply chain should be ethical. A business house is even responsible for the wrong doings of any of the vendors across the supply chain. One such example is of Apple Incorporation which has come into bad publicity because of the labor exploitation allegations at its Chinese suppliers' factories. Various labor rights watchdog groups are charging Apple Inc. for not being able to solve workers' exploitation at its Chinese manufacturers. The three suppliers -- Foxlink, Pegatron, and Wintek -- fail to provide for basic human needs and continue to use student workers, according to Students and Scholars Against Corporate Misbehavior (SACOM). After all this activism Apple has increased its supplier audits and is getting more stringent with its supplier code of conduct.

Insider Trading: Another burning topic in the area of ethics is the issue of Insider Trading which means misuse of non-public financially sensitive information for the personal gains. Securities Exchange Commission (SEC) the American counterpart of SEBI has brought forward very high profile cases related to insider trading. One such case is of insider trading high profile management person who was also at the boards of Goldman Sach got convicted for insider trading charges questioning the status

Money Laundering: Money laundering is a serious issue faced by banking and finance industry where source of money is concealed which could be black money also and later on it is camouflaged and converted into white money by complex financial transactions. A recent sting operation by CobraPost brought up some of the most respected names of Indian bankingindustry in a case where their banking executives were compromising on anti-money laundering norms thus exposing our banking system to bad money which might be supporting terrorist or other anti-social activities. The factor of greed to get deposits for their banks was so high that very ready to flout all the norms which they are supposed to meet. Such culture of greed is ultimately driven by the culture of such organizations. The RBI penalized these banks heavily along with the brand loss which these respected financial houses suffered. Internationally also the many big banks got involved in money laundering scams like HSBC and Standard Chartered.

Bribing of Doctors by MRs: Many reputed pharmaceutical companies like Johnson and Johnson, GlaxoSmithKline have been charged recently for following unethical practices so as to encourage doctors to prescribe their companies' medicines and other products. These companies sponsor foreign trips of these doctors in the name of educational trips at the cost of precious lives of patients. But laws are getting stricter to stop such menace and few pharma companies like GlaxoSmithkline have also taken certain initiatives like they have stopped paying remuneration to their sales representatives on the basis of number of prescriptions written by doctors for their drugs.

Innovating Ethically : Another relevant issue is to spend huge amounts on carrying on R & D activities judiciously, thus ensuring that inventions 'match' the needs of the market, monitoring and adjusting for unintended consequences of innovations, and assessing the overall impact of innovations (Martin, 2008). But many companies are doing genuine innovations for the good of the society like, Toyota's hybrid model Prius. Managers should ensure that the businesses should be focusing on creating such innovations which are good for their companies as well as for the society, as such mutually beneficial innovations are sustainable (Martin, 2008).

Environmental Degradation: One of the biggest damage which many businesses cause is to the environment and climate. Nature of some businesses is such that they can cause more harm to the environment than others and hence need to be more careful with their operations and if they are not then cost to their brand along with the cost to the society. One such example is of British Petroleum (BP) oil spill disaster which happened in 2010 in Gulf of Mexico which questioned BP's claim of being an environmentally responsible company. Along with huge financial penalty and plunging of its share prices, BP had to face enormous reputational degradation also. In fact this case became a turning point in the area of accountability towards social and climatic issues and sustainability risk a company faces if it falls short of what it claims in its policies (Smart, Barman and Gunasekera, 2010). Moreover with the advent of social media the bad publicity spreads like jungle fire these days. Now it is not possible for a company to escape from its wrong doings like it was some three decades back in the case of Union Carbide Company which was responsible for Bhopal gas tragedy. In fact the skeletons tumbled again out of the cupboards during 2012 London Olympics for the Dow Company which later bought assets of Union Carbide. The activists protested against the company's association with London Olympics.

Efforts to Bring Ethical Culture in Business:

Code of Ethics: The authors (Singh et al. 2005) emphasize the role of globalization in the spread of corporate code of ethics. Three reasons as cited by (Breinbeim 2000) behind the growing significance of code of ethics are:

a. Globalization and hence requirement for uniform core principles.
b. Code of ethics being part of Corporate Governance requirements.
c. To improve ethical literacy of management.

Also as proposed by a model (Stajkovic & Luthans 1997) factors which have an effect on business ethical standards are – institutional e.g. legislations concerning ethics, personal e.g. moral development and organizational e.g. code of ethics.

Another study (The Global Business Responsibility Resource Centre 2001) emphasizes certain business related reasons because of which the importance of code of ethics has gained momentum. These are: increase in corporate image and brand, message of commitment towards ethical behavior, unifying corporate culture among its employees, at times reduction in penalties due to some other reasons for ethically compliant companies and it facilitates spread of globalization and businesses in culturally different emerging economies.

Training: A recent international survey highlighted that just 39 percent of the company boards which got surveyed actually got formally trained in compliance and ethics, but out of that 77 percent agreed that such training is required. If we see the results region wise then in Japan approximately 94% of those surveyed felt the need for such trainings where as in Western Europe just 42 % respondents agreed to the need for ethics based training. The need is also to decide that who will set the ethical tone for an organization and how much is the board responsible for creating the morally right environment for an organization. Further, it has been observed that most of the times top leadership is not proactive in enforcing ethics rather they take a call when there are some triggers like: internal incidents, change in government policy, media exposure, annual review of ethics policy, staff turnover, customer and supply chain issues etc. (http://www.kpmg.com.au/aci/docs/rassas_view-from-the-top200510.pdf)

Regulatory Bodies: Foreign Corrupt Practices Act (FCPA) is a US federal law which that addresses issues related to corruption and bribery of foreign officials. The FCPA applies to any person who has a certain degree of connection to the United States and engages in foreign corrupt practices. The Act also applies to any act by U.S. businesses, foreign corporations trading securities in the United States, American nationals, citizens, and residents acting in furtherance of a foreign corrupt practice whether or not they are physically present in the United States. In the case of foreign natural and legal persons, the Act covers their actions if they are in the United States at the time of the corrupt conduct. Further, the Act governs not only payments to foreign officials, candidates, and parties, but any other recipient if part of the bribe is ultimately attributable to aforeign official, candidate, or party. These payments are not restricted to just monetary forms and may include anything of value. Also in India laws are getting stringent to ensure compliance and curb financial frauds like, Serious Fraud Investigation Office(SFIO), Prevention of Money Laundering Act (PMLA); RBI regulations; KYC norms; the Banking Act. The regulatory bodies are also getting very stringent like SEBI with its improved capital market and insider trading laws and then Insurance Regulatory Development Authority (IRDA) keeping a check on malpractices and mis-selling in insurance sector; Competition Commission of India (CCI) checking monopolistic and unfair trade practices. Auto Recalls by GM, Toyota: Reputation loss for a auto brand is much more damaging than the cost of recalling the damaged vehicles. This is evident from various incidents of auto recalls starting from 1970 when Ford recalled Pinto cars which were having faulty fuel tanks (Smart, Barman & Gunasekera 2010).

Indian Company's Act 2013 and Corporate Social Responsibility: India's new Company's act has set a precedence world over by making CSR contributions mandatory. As per new rules every company meeting certain financial standards is required to compulsorily contribute 2 percent of its average profits of last three years towards CSR activities which are listed in the act.

HR Diversity: With businesses becoming global, working across different cultures, work force needs to be diverse in every sense. Inclusion of women in boards and various departments of organization is gaining momentum. In fact India's new Company's Act makes it mandatory to have one woman director on the board of companies. As it ensure gender equality and moreover females are observed to bring more sensitization towards ethics. Also consumers and activists take it very seriously if any company discriminates its employees on the basis of gender, race, minority communities or those having different sexual orientations.

Promoting The Ethical Way: The recent advertisements have focused on many sensitive and moral areas. For instance, in the times of recession and stress many advertisers have attempted to spread hope through their advertisements like, Coca-Cola's "Umeedoon Wali Dhoop, Sunshine Wali Asha" campaign; Dominos promotional campaign also shifted from "30 minutes, otherwise free" to "Khushion ki Home Delivery"; Titan Tanishq's advertisement which shows protagonist to be a dusky female (instead of a very fair one) getting remarried thus breaking some social biases; Tata Tea's " Jago Re" campaign reflects the rising power of common man very effectively. Business houses can no longer afford to remain self centered while creating their brands e.g. Unilever's 'Project Sunlight' which endorses a sustainable living through its various brands thus making this world a better place to live. It motivates everyone to adopt a sustainable lifestyle through which we can keep our planet intact for our future generations also. For instance, Unilever's Lifebuoy promotes creating awareness about hygiene by a simple act of washing hands so that in many Asian, African and Latin American nations where children die due to diarrhea because of poor hygiene conditions can stay healthy; through their Dove beauty care campaign which celebrates in every ordinary women; creating such detergents which need less water to rinse for nations where there is shortage of water supply; thus creating a sense of responsibility among its consumers towards social and moral issues. Living in a

sustainable way, consuming scarce resources judiciously, ensuring improvement in the livelihood of all the stakeholders in the supply chain and caring about our future generations is no more a choice but has become a necessity from which business houses cannot escape. Another example is of GAP advertisement which has an Indian Sikh model Waris Ahluwalia. The ad attracted few racial remarks but the company handled it in a very appropriate way and set an example of curbing racial slurs.

Improved Reporting standards: The recent financial crisis have reinforced the need for improved reporting standards which can bring forward systemic risks. As happened in the past the reckless capital decisions which can have long term repercussions need to be controlled and stakeholders should have an access to such information and not just window dressed financials. Infact there is a huge demand for 'accounting for sustainability' (Smart, Barman & Gunasekera 2010).

Business Ethics as a Facilitator of Earning Profits:

The business ethics literature highlights an issue that there is a perception that a business has to do tradeoff between following ethics and making profits, but with changing times more and more evidence for a ethical business being a profitable business are coming (Sargent 2007). A report by KPMG also stated that consumers are also more in favour of those corporates which are producing environment friendly goods and services, in fact 42 percent of those surveyed were even ready to pay extra for green products (Singh 2008). It has also been empirically proven that customers are ready to buy products at a premium if they are ethically produced, hence adding to business profitability (Trudel & Cotte 2008). The returns on ethics is thus getting proven by those organizations which are getting more preference by customers, society, media and stakeholders as such businesses are creating an environment which would give a chance for future generations to grow and develop also (Loumbeva 2008). There further have been proofs where businesses have earned profits because of adopting ethical practices, e.g. Co-operative Bank of UK has seen an annual growth of 14% in its profits since it has adopted an ethical practice of doing business only with morally right companies, similar thing has been experienced by Marks & Spencer since it has made commitments on the five pillars of controlling and managing wastes, climate control, sustainable raw material, health and doing business only with fair partners. Further, we cannot take natural resources for granted and consider them as nature's free gift as they are getting scarcer. Economists are also supporting the need to account the 'externalities' which means negative or harmful effects of various economic activities. The traditional financial reports fail to report the fact if the externalities exceed the financial benefits from the products (Smart, Barman & Gunasekera 2010).

Conclusion

Various examples and issues discussed above reflect one thing that ethics play a pertinent role in the success or failure of an organization. Ethics need to be brought into the business models in such a way that even the time of adversity a company's reputation can help it to survive. Having a strong ethical base is a value-add to a company's brand and thus adds to its bottom line. Unethical practices cause huge reputational, social and environmental damage. Being ethical and sustainable cannot merely be alip service rather it has to be brought into the strategy, business model and every action of a corporation. So business is no more about just caring for bottom line rather triple bottom lines where focus is on people, planet and profit collectively. Further, business and academia to should endeavor to bridge the gap between ethical behavior and business practice through executive education programs, practitioner-focused research, and outreach.

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