## UNIT V

### Business Ethics

Business ethics studies appropriate business policies and practices regarding potentially controversial subjects, including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, fiduciary responsibilities, and much more. The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can follow to gain public approval.

### Understanding Business Ethics

Business ethics ensure that a certain basic level of trust exists between consumers and various forms of market participants with businesses. For example, a portfolio manager must give the same consideration to the portfolios of family members and small individual investors as they do to wealthier clients. These kinds of practices ensure the public receives fair treatment.

The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility. The increased focus on "social issues" was a hallmark of the decade.

### Principles of Business Ethics

It's essential to understand the underlying principles that drive desired ethical behavior and how a lack of these moral principles contributes to the downfall of many otherwise intelligent, talented people and the businesses they represent.

There are generally 12 business ethics principles:

- **Leadership**: The conscious effort to adopt, integrate, and emulate the other 11 principles to guide decisions and behavior in all aspects of professional and personal life.
- **Accountability**: Holding yourself and others responsible for their actions. Commitment to following ethical practices and ensuring others follow ethics guidelines.
- **Integrity**: Incorporates other principles—honesty, trustworthiness, and reliability. Someone with integrity consistently does the right thing and strives to hold themselves to a higher standard.
- **Respect for others**: To foster ethical behavior and environments in the workplace, respecting others is a critical component. Everyone deserves dignity, privacy, equality, opportunity, compassion, and empathy.
- **Honesty**: Truth in all matters is key to fostering an ethical climate. Partial truths, omissions, and under or overstating don't help a business improve its performance.

Bad news should be communicated and received in the same manner as good news so that solutions can be developed.

- **Respect for laws**: Ethical leadership should include enforcing all local, state, and federal laws. If there is a legal grey area, leaders should err on the side of legality rather than exploiting a gap.
- **Responsibility**: Promote ownership within an organization, allow employees to be responsible for their work, and be accountable for yours.
- **Transparency**: Stakeholders are people with an interest in a business, such as shareholders, employees, the community a firm operates in, and the family members of the employees. Without divulging trade secrets, companies should ensure information about their financials, price changes, hiring and firing practices, wages and salaries, and promotions are available to those interested in the business's success.
- **Compassion**: Employees, the community surrounding a business, business partners, and customers should all be treated with concern for their well-being.
- **Fairness**: Everyone should have the same opportunities and be treated the same. If a practice or behavior would make you feel uncomfortable or place personal or corporate benefit in front of equality, common courtesy, and respect, it is likely not fair.
- **Loyalty**: Leadership should demonstrate confidentially and commitment to their employees and the company. Inspiring loyalty in employees and management ensures that they are committed to best practices.
- **Environmental concern**: In a world where resources are limited, ecosystems have been damaged by past practices, and the climate is changing, it is of utmost importance to be aware of and concerned about the environmental impacts a business has. All employees should be encouraged to discover and report solutions for practices that can add to damages already done.

**Why Is Business Ethics Important?**

There are several reasons business ethics are essential for success in modern business. Most importantly, defined ethics programs establish a code of conduct that drives employee behavior—from executives to middle management to the newest and youngest employees. When all employees make ethical decisions, the company establishes a reputation for ethical behavior. Its reputation grows, and it begins to experience the benefits a moral establishment reaps:

- Brand recognition and growth
- Increased ability to negotiate
- Increased trust in products and services
- Customer retention and growth
- Attracts talent
- Attracts investors

When combined, all these factors affect a business' revenues. Those that fail set ethical standards and enforce them are doomed to eventually find themselves alongside Enron, Arthur Andersen, Wells Fargo, Lehman Brothers, Bernie Madoff, and many others.

**Types of Business Ethics**
There are several theories regarding business ethics, and many different types can be found, but what makes a business stand out are its corporate social responsibility practices, transparency and trustworthiness, fairness, and technological practices.

**Corporate Social Responsibility**
Corporate social responsibility (CSR) is the concept of meeting the needs of stakeholders while accounting for the impact meeting those needs has on employees, the environment, society, and the community in which the business operates. Of course, finances and profits are important, but they should be secondary to the welfare of society, customers, and employees—because studies have concluded that corporate governance and ethical practices increase financial performance.[1]

Businesses should hold themselves accountable and responsible for their environmental, philanthropic, ethical, and economic impacts.

**Transparency and Trustworthiness**
It's essential for companies to ensure they are reporting their financial performance in a way that is transparent. This not only applies to required financial reports but all reports in general. For example, many corporations publish annual reports to their shareholders.

Most of these reports outline not only the submitted reports to regulators, but how and why decisions were made, if goals were met, and factors that influenced performance. CEOs write summaries of the company's annual performance and give their outlooks.

Press releases are another way companies can be transparent. Events important to investors and customers should be published, regardless of whether it is good or bad news.

**Technological Practices and Ethics**
The growing use of technology of all forms in business operations inherently comes with a need for a business to ensure the technology and information it gathers is being used ethically. Additionally, it should ensure that the technology is secured to the utmost of its ability, especially as many businesses store customer information and collect data that those with nefarious intentions can use.

**Fairness**
A workplace should be inclusive, diverse, and fair for all employees regardless of race, religion, beliefs, age, or identity. A fair work environment is where everyone can grow, be promoted, and become successful in their own way.

**How to Implement Good Business Ethics**
Fostering an environment of ethical behavior and decision-making takes time and effort—it always starts at the top. Most companies need to create a code of conduct/ethics, guiding principles, reporting procedures, and training programs to enforce ethical behavior.

Once conduct is defined and programs implemented, continuous communication with employees becomes vital. Leaders should constantly encourage employees to report concern behavior—additionally, there should be assurances that if whistle-blowers will not face adversarial actions.

A pipeline for anonymous reporting can help businesses identify questionable practices and reassure employees that they will not face any consequences for reporting an issue.

**Monitoring and Reporting Unethical Behavior**
When preventing unethical behavior and repairing its adverse side effects, companies often look to managers and employees to report any incidences they observe or experience. However, barriers within the company culture (such as fear of retaliation for reporting misconduct) can prevent this from happening.

Published by the Ethics & Compliance Initiative (ECI), the Global Business Ethics Survey of 2021 surveyed over 14,000 employees in 10 countries about different types of misconduct they observed in the workplace. 49% of the employees surveyed said they had observed misconduct and 22% said they had observed behavior they would categorize as abusive. 86% of employees said they reported the misconduct they observed. When questioned if they had experienced retaliation for reporting, 79% said they had been retaliated against.

Indeed, fear of retaliation is one of the primary reasons employees cite for not reporting unethical behavior in the workplace. ECI says companies should work toward improving their corporate culture by reinforcing the idea that reporting suspected misconduct is beneficial to the company. Additionally, they should acknowledge and reward the employee's courage in making the report.

The Seven Principles of Public Life (The Nolan Principles)

The Seven Principles of Public Life (the ‘Principles’) apply to people who serve the public in any way, including governors of higher education institutes. The Principles were first set out by Lord Nolan in May 1995 in the first report of the Committee on Standards in Public Life which he chaired. The principles apply to all aspects

The committee promotes a code of conduct for those in public life called the Seven Principles of Public Life or the Nolan Principles:**Selflessness** – Holders of public office should act solely in terms of the public interest.

- **Integrity** – Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- **Objectivity** – Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- **Accountability** – Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- **Openness** – Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- **Honesty** – Holders of public office should be truthful
- **Leadership** – Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.[9]