

# Business Ethics: Issues and Challenges

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**Abstract:** Ethics or morality has a significant impact on the effective working life of a business. No company or business may get long term benefits in the absence of ethical principles. Ethics create goodwill or reputation of a business that is the most important asset of a company. A business should therefore, possess all those qualities or characteristics which are necessary to satisfy the interests of various groups connected with the business and avoid all the unethical issues which may be harmful for these groups as well as business.

## Origin of the research problem:

It has been seen that ethical problems are creating various challenges before the business & community. In spite of so many researches on the topic and acts of the government, the unethical practices are increasing gradually. Therefore, it is the serious issue that how the awareness about business ethics should be created in the minds of business professionals and the society?

## Review of literature:

The review of literature provides a road map for the basis of strategy formulation & implementation of ethical principles. Some of the important studies by various authors relevant to this topic are as follows:

D.G. Arnold, T.L. Beauchamp & Norman L. Bowie in their book entitled as “Ethical theory & business” published by Pearson in 2012, have highlighted the role of ethics in all functional areas of business. Andrew Crane & D. Matten in the book entitled as Business Ethics published by OXFORD in 2010, have studied various activities & situations of right & wrong issues. R.W. Paul and L. Elder have made detailed discussions about the concepts & principles of business ethics. B. D. Mente ( Japanese manners & Ethics in business in 1961), R. G. Apressyan ( Business Ethics in Russia, 1997), G. J. Rossouw ( Business Ethics in South Africa- 1997), John R. Boatwright ( Globalization & the Ethics of business -2000) , Ronald Duska (Business Ethics: Oxymoron or good business-2000) & R.C. Baumhart (How ethical are businessmen) all of these have discussed the ethical problems in different countries.

After studying the above views, it may be said that business ethics is the combination of moral principles & social values that helps in determining the behavior of a business towards its different interested groups and the society. It helps in knowing the characteristics of a business policy, setting up a good plan and avoiding or removing the unfair/ illegal competition or activities.

## National & international status:

The principles of ethics may be similar in most of the countries of the world. But there are some points of differences related to the society, culture, sex, races and environment that may vary from one nation to another. A multi- national company may adopt policies or principles either developed in home country or followed by foreign country where it is performing its business. Presently the cases of bribery & unethical practices are increasing widely. The disappointing behaviour of employees is also responsible due to which the top management suffer and the business is not able to attain its targets of revenue.

## Significance of the study:

All the resources of a business which are necessary for production are obtained from the society. It also depends completely on the society in performing its functions. It should ,therefore discharge its duties to enhance the overall welfare of the society including its shareholders, Employees, Customers, Creditors, Lenders, Suppliers, Competitors etc. A business should provide fair & regular return to its shareholders, fair, timely, regular wages / salaries and proper working conditions to its employees and pure & better quality of goods & services at reasonable prices to satisfy the needs of customers. It should not harm the competitors and environment by any means, pay taxes regularly with honesty and should promote socio- economic development of the society & nation.

Good relations are the result of fairness & justice and play an important role in smoothly functioning of a business. When the related parties are treated equally, fairly and honestly, it creates trust and this trust is a source of pride & self-respect to the company. A company operates its activities successfully in peaceful atmosphere without any strike or lock-out. Thus good relations promote sales, generate more revenues / profits and as a result, the company is able to discharge its responsibilities towards different groups in the most beneficial way.

## Objectives:

The objectives of the study are:

To study the ethical & non-ethical issues which affect the business directly or indirectly & have a great impact on consumers, society & the nation.

To discuss the problems those arise due to non- ethical issues.

To provide suggestions for solving the ethics related problems.

**Keywords:** Business scandals, fraudulent financial Reporting, Ethical Behavior, Right & wrong actions, corporate Social Responsibility, creative Accounting, unfair Trade Practices.

### Introduction

First of all, the word business Ethics was introduced in United States of America in 1970. It is also known as corporate ethics / applied ethics or Professional ethics. It means good habits, qualities & customs. It is the best way of doing business or to live a satisfactory life. It examines all the ethical problems, issues and challenges. It states that how a business organization should perform its duties towards its employees, customers, competitors, creditors & the society and defines their behavior with each other. In brief, we may say that when a business is started with a human touch in order to provide its benefits to the different persons or sections of the society, the ethic is seen. In business ethics, various situations & activities of a business are assessed to know its good or bad action. The government also sets rules & regulations for registrations of business or manufacturing units in the country. As per these rules & regulations, every business has some responsibilities to discharge towards different groups having interest in the business. Therefore, it must act honestly and follow the principles of integrity, fairness, social justice while doing its business.

### Non- ethical Issues:

Unethical problems damage the reputation of a business unit and adversely affect the customers also. A customer is a king of market who selects the item as per his demand/test/ preference & satisfaction. "The economic wheel moves around his whims & fancies". (singh, September 04,2013). So, the practices which harm the customers must be removed at the priority. These practices include preparation of synthetic or poor quality products by sophistication / adulteration, sale of expired items in rural areas, corruption, tax avoidance, bribery, insider trading, kickbacks, securities fraud, facilitation payments, accounting scandals, discrimination, use of child labour, sexual harassment , sexual discrimination, time misuse, unlawful use of copy rights/ trademarks, palming off, disparagement misappropriation of assets, fraudulent financial reporting, creative accounting, earning management , lack of corporate social responsibilities, unethical behavior, misleading advertisement, harming environment, unsafe & unsanitary working conditions, lack of fair wages to workers etc.

### Bribery & corruption:

When a person gives or receives money in exchange of some kind of influence or return, it is known as bribery. Here, an offer (cash or in the shape of gift) is given for getting work completed whether it is legal or illegal. Bribery gives birth to corruption and opens all the doors for illegal / unethical work. Therefore, a business should fairly deal with all of its employees/ customers / creditors/ suppliers and related parties. It should not promote corruption by any means. A company should select the talented and eligible employees without the feelings of regionalism, communalism/ religionalism, castism, nepotism, languagism and should not be included in any practice of black marketing.

### Corporate tax avoidance & tax evasion:

If a company does not pay the fair amount of taxes imposed on it by the central / state or local government at the right time, it is known as tax avoidance. It may use tax shelter to reduce taxable income or high profit margin method to indicate high operational efficiency or low sales turnover rate. Tax evasion is an illegal practice & criminal charge. It involves hiding income, interest or cash transactions as recently in U.P. a businessman named as Piyush Jain was arrested in case of tax evasion and Rs. 194.45 crore of cash, 23 kg of gold & unaccounted raw materials of Rs. 6 crore was recovered which is the largest in the history of Central Board of Direct Taxes. (www.thehindu.com)

### Fraudulent Financial Reporting:

When the accounting policies or estimates are manipulated by the management of a company to improve the financial records of business, it is known as fraudulent financial reporting. So, the policies & practices related to accounting should be adopted by the company with honesty & consistency.

### Misappropriation of Assets:

The management or the employees of the company should not make fraud or use of the company's assets / cash or cash equivalents as credit notes, vouchers, data etc. for their personal benefits without authorization. They should not misuse their positions to steal the company's assets through fraudulent activities i.e. creation of false invoices, claims for false expenses or payroll fraud.

### Insider trading:

It may be legal or illegal. When a person buys or sells such securities / stocks about which the full information is not available to the general public, it is known as insider trading. This person may be a corporate officer / Director or any other person who has nonpublic information. If the complete information about shares / securities is provided to the general public, such trading is known as legal trading. Insider trading may be regarded as white colour crime and the guilty person should be punished.

### Facilitation payment:

This type of payment is made to foreign officials and is not considered as bribe but from the ethics' point of view, these payments are not considered good. These payments may create additional risks and also discourage investments.

**Accounting & business scandals:**

Such scandals are done by top level management/ employees by altering financial statements for their personal benefits as over stating revenues, under stating expenses, misusing of funds, over stating the value of Assets and under stating the amount of liabilities.

Source: Data Collected from different sources

S.N.	Name of Scandals	Year	Amount of fraud	Main Accused
1	Yes Bank Scandal	2020	4300 crore	Founder- Rana Kapoor
2	PMC Scandal	2019	4355 crore	Former chairman- Waryam Singh
3	Rotomac Bank Fraud	2018	RS. 3695 crore	Directors: Vikram, Sadhana & Rahul Kothari
4	PNB Scam	2018	Rs.11,600 crore	Neerav Modi
5	IL & FS scam	2018	Rs. 13,000 crore	Arun Shah, K. Ramchandra, R C Bava & Hari Sankaran
6	winsome Diamonds Jewellery	2017	Rs. 1,530 crore	Jatin Mehta
7	Gujarat Fisheries Scam	2017	Rs. 400 crore	Purshottam Solanki
8	Sahara India investors' frauds	2014	300 crore Dollar	Subrata Rao
9	Satyam Scandal	2009	Rs. 8,000 crore	Ramalinga Raju
10	2G Spectrum	2008	Rs. 17,600 crore	A. Raja
11	Stamp papers scam	2002	Rs. 20,000 crore	Abdul Karim Telgi
12	Ketan Parikh stock market scam	1998-2001	Rs. 2,000 crore	Ketan Parikh
13	Harshad Mehta stock market scam	1992	Rs. 5,000 crore	Harshad Mehta, Biggest Bull

**Creative Accounting:** It is the root of accounting scandals. It is the false & misleading representation of company's income / profit or assets. It is a practice to follow the rules of standard accounting but there is always a difference from the rules' spirits. Creating accounting may also be spoken as aggressive accounting/ window dressing/ cosmetic accounting or Innovative Accounting. (marketbusinessnews.com) Its aim is to show the more healthy or strong financial position of a company than its reality.

**Under delivering & over charging:** By under delivering or over charging practice, a company is likely to turn off or loss its customers. Such practices disappoint customers and lead to a lot of anger & frustration in the minds of customers. The trust of customers in a company always raises its value. So, understand it, respect customers and earn money for future by satisfying customers in present.

**Unfair Trade Practices:**

These include deceptive, injurious, unlawful and fraudulent practices by a company as false representation about quality / quantity/ standard/ bait & switch selling/ bargain sale/ composition/ grade/ old or new goods/ sponsorship/ approval/ performance/ uses/ benefits/ guarantee/ warranty/ need/ usefulness/ price/ false offers/ free gifts/ prize schemes/compliance of prescribed standards/ false or misleading advertising/ trade secret/ misappropriation/unfair competition for promoting sales, contacting people without their consent, sexual discrimination, unsafe & unsanitary working conditions, releasing pollutants into air or water etc. Such trade practices provide economic injury / loss to the customers or the concerned parties.

**Palming off:**

When goods or services of a company are shown as the goods or services of another company, it is known as palming off and it is unlawful. It is like unfair competition.

**Disparagement:**

When a company or firm publishes false statements that harms the reputation of another company / business or product as use of another trade mark, firm's name, product labeling or packaging etc., it is known as business disparagement or commercial disparagement.

All of the above unethical issues and practices can destroy the reputation of a business and will lead to legal troubles.

## Ethical Issues:

What a business should adopt for the welfare of its customers, society and for its own goodwill? Its answer includes-

The principles of ethics,

Good relations among various related parties / groups,

Corporate social responsibilities of a business.



**Objectivity:**

A company should perform its activities without influencing by emotions or personal prejudices. It means that the employees or other people in the organisation should not have any dispute or conflict of interests while performing their professional duties & responsibilities. The management & the employees of the company should be independent & fair. They should perform their duties by getting the answers of the following questions:

1. Whether they have effective relationship within the organization with each other and outside the organization with other related parties, and
2. Whether they are honestly discharging their responsibilities towards the welfare of people & society.

Code of conduct:

“Today what you will sow or seed, you will cut tomorrow.”

The code of conduct state the actions & behavior (set of rules, regulations, traditions & responsibilities) to be followed at the place of work. The code of conduct may force the people to think about the measurement of their behavior. The code of conduct serves as a framework for decision making and guiding the staff members.

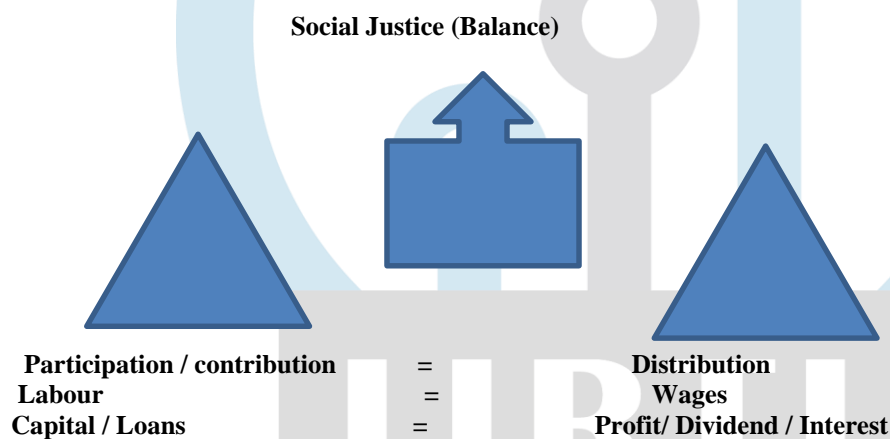
A code of conduct may help you in defining the accepted / unacceptable behavior, in promoting a high standard of practice, in establishing a framework for ethical behavior & responsibilities and in establishing the identity of your business. The ethical standards should also be followed while doing the audit wok.

**Social justice:**

**Every person in the company should consider his responsibility honestly and act for the welfare of others.**

There should be no violation of human rights. Equal opportunities should be provided to equal category of workers/ employees in employments, education, welfare programs etc. Discrimination on any basis as sex, caste, region or religion should not be done. For this purpose, every year on 20 February, the world day of social justice is celebrated from the year 2009 to tackle the issues related to society & economy as poverty, un-equality & unemployment. In this year (2021), the theme for celebration of social justice day is a call for social justice in the digital economy. (www.ndtv.com)

Social justice thus, promotes the welfare of society and provides pleasure and satisfaction to the people.



If there is any threat to the above principles (as conflict of interests, evaluating the previous judgment result, sympathy to the interests of close relationship, advocacy and intimidation threat), the significances of threats should be assessed and corrective action should be taken to remove / solve such issues.

**(b) Good Relations & ethics:**

Good relations are the result of fairness & justice and play an important role in smoothly functioning of a business. When the related parties are treated equally, fairly and honestly, it creates trust and this trust is a source of pride & self-respect for the company. A company operates its activities successfully in peaceful atmosphere without any strike or lock-out. Thus good relations promote sales, generate more revenues / profits and as a result, the company is able to discharge its responsibilities towards different groups in the most beneficial way.

**(c) Corporate Social Responsibilities of a business:**

All the resources of a company needed for production are obtained from the society. It also depends completely on the society in performing all its functions. It should ,therefore discharge its duties to enhance the overall welfare of the society including its shareholders, Employees, Customers, Creditors, Lenders, Suppliers, Competitors etc. A business should provide fair & regular return to its shareholders, fair, timely, regular wages / salaries and proper working conditions to its employees and pure & better quality of goods & services at reasonable prices to satisfy the needs of customers. It should not harm the competitors and environment by any means, pay taxes regularly with honesty and should promote socio- economic development of the society & nation. As per the Ethisphere’s Institute of U.S.A., in the year 2021, 03 Indian companies (Infosys, Tata Steel Ltd. & WIPRO Ltd) are selected amongst 135 worlds’ most ethical companies. These companies brought profitable changes in the business world & society. (www.thehansindia.com)

**(d) Right & wrong actions:**

**The right actions** mean those decisions of the business which are implemented to benefit the different related parties as consumers, creditors, competitors, bankers, suppliers, society and the nation. **The wrong actions** of the business adversely affect the interests of the concerned groups and as a result, there is a loss of goodwill to the company. Such actions are the result of miss-management or the bad policies adopted by the business to promote its sales. Due to these non-ethical/harmful actions, a business may earn money in short run but in long run, it may lose its goodwill. Therefore while taking decisions about the business; the management should thoroughly study the impact of such policies on consumers, society, environment etc. It should not make any discrimination among the people. A business must always believe in **"KAR BHALA HOGA BHALA"** (Do better and get better). The greatness always exists in humanity, social service and good works for others and it is never obtained from power or possession. This thinking will satisfy the interests of different related parties which in turn would satisfy the business itself.

**Conclusion & Suggestions:**

It may be concluded that the principles/ values or goals of the organization that respect the human needs and the welfare of people are included in business ethics. Ethics provide a good image & profit to the business, good relations among various connected groups with the business and safe environment to the society. But now a days, it has been seen that non-ethical practices are occurring without any fear of law in the mind of fraud businessmen. In most of the cases of frauds, the promoters/ chief executives or directors of the companies are involved. Therefore, it is the necessity of time to make & implement the law forcefully to punish the fraud / corrupt business persons by the government at national level and international level, the government should have mutual agreements of handing over with those foreign countries where such persons mostly go away. The deceivers who play with the health of the people should be heavily fined & jailed and not bailed for a minimum period of 10 years or as the case may be. At the level of management, the following measures must be adopted:

An effective system of checking should be set up to look after the unethical issues and the responsible person/ agency should be punished.

The sources of information should be checked to avoid scams / scandals.

A business should monitor the activities of its employees, creditors & customers.

While selecting the employees for the company, their ethical education should be examined and ethical training should also be provided to them for better result.

Ethical education should also be compulsory in different courses from primary to higher education level.

Some necessary but Hazardous & pollutant industries should also be banned near the residential areas.

There should be a confidential, accessible and effective system of reporting complaints.

Motivational feelings & professionalism should be encouraged.

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