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Chapter 1 : Introduction

Ethics & Governance

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Promotion of culture of ethics is an imperative, and it is increasingly being realised that it is the bedrock of good governance which ultimately re-instils the confidence of the stakeholder in the company.

Governance through Inner Consciousness

To be able to do the right thing in the right way, in each case and at every moment, one must be in the right consciousness.

- Sir Aurobindo

Inner consciousness is the awareness, the capacity to listen to the inner voice that tells us that there is someone who is looking up at us and also warns that there is someone who is watching us.

The soul of core of corporate governance is not the conduct or behaviour that we see outwardly. It is internalised values that an organisation and its top management follow.

The essence of human being is consciousness and the world we create around us is the expression of our consciousness. The quality of our consciousness depends on which part of the consciousness we live and it is not determined by intelligence quotient or our intellect.

There are two parts in our consciousness. First is the lower physical vital being driven predominantly by self interest, material needs and sensuous desires quite often degenerating into greed. The second is the higher mental, moral and spiritual being seeking for truth, beauty, goodness, harmony and unity.

An important quality of the higher part of our conscience is self-governance and thus it has an intrinsic motivation for ethics and self regulation. Self governing individual in a self governing community must be the highest ideal of corporate governance.

The corporate governance, to be truly effective and enduring, has to be based on this higher part of our human nature or consciousness.

The idea of self governance must be the highest goal of all governance. Thus, corporate governance should endeavour to create corporate consciousness and an environment in which those who are charged with governance and those who are governed display genuine ethical, social and ecological responsibilities.

'Ethics is knowing the difference between what you have a right to do and what is right to do'

-Potter Stewart

The Oxford dictionary states ethics as the 'moral principle that governs a person's behaviour or how an activity is conducted.

Ethics : The term ethics is derived from the greek word '**ethos**' which refers to character or customs or accepted behaviours. Ethics refers to well founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness or specific virtues.

Ethics is a set of principles or standards of human conduct that govern the behaviour of individuals or organisations. Using these ethical standards, a person or a group of persons or an organisation regulate their behaviour to distinguish between what is right and what is wrong as perceived by others. **It is not a natural science but a creation of the human mind.**

Ethics is a first line of defence against corruption as law enforcements is remedial and reactive. Absence of ethics and good governance standards will lead to questionable practices and corporate failures which surfaces suddenly and massively.

Important point to note :

- ❖ In earlier times, the kings used to keep food tasters who used to eat the food prepared for the king before it was offered to him and thus in a way finding out whether the food was poisoned. It was ethics of the time and was never questioned as king was regarded as the most important person in the kingdom.
- ❖ What is considered ethical behaviour in one society might be considered unethical in another. For example, euthanasia (mercy killing) is permitted in some countries but is considered as strictly unethical in most countries.

Features of Ethics :

- Ethics is a conception of right or wrong conduct. Ethics tells us when our behaviour is immoral or moral.
- Ethics deals with formalised principles derived from social values. It deals with the moral choices that we make in the course of performing our duties with regard to other members of the society.
- Ethical principles are universal in nature. They prescribe obligations and virtues for everybody in the society.
- **There exists no sharp boundaries between ethical and non-ethical.** Therefore, people often face ethical dilemmas wherein a clear cut choice becomes very difficult.

- The concept of equity and justice is implicit in ethics. Fair and equitable treatment to all is its primary aim.
 - Ethics and legality of action do not necessarily coincide. The legality of action and decisions does not necessarily makes them ethical.
-

Business Ethics : Business ethics is a form of applied ethics. In broad sense, ethics in business is simply the application of moral or ethical norms to business. Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others. The code of conduct are also known as Code of ethics or Code of practice.

Thus, the coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and neighbours. Business ethics stands for purity of purpose that is upheld through carefully designed actual practices of a business enterprises.

It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. Thus, businesses must balance their desire to maximise profits against the needs of stakeholders.

Importance of ethics in business :

- 1) There is a kind of social contract between the society and business by which the society expects the business to work in its interest. eg : while opting for technological advancement, their impact on the environment and the society must be kept in mind.
- 2) Ethical conduct is in the long term interest of businessmen. A business enterprise that is honest and fair to its customers, employees and other stakeholders earns their trust and goodwill which ultimately leads to customer satisfaction, healthy competition and industrial growth.
- 3) Ethical business is not only about good business but about good citizenship as well. Morally conscious businessmen serve customers with good quality products at fair prices, treat their employees with great respect, reward their shareholders with good returns and pay their taxes honestly.
- 4) Ethical policies and practices enables a business enterprise to build goodwill for itself and unethical practices ultimately leads to the downfall of big organisations too.
- 5) Businesses can prosper only when a society is stable and peaceful.

The coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and other stakeholders. It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of the company.

Mahatma Gandhi once mentioned that all the business entrepreneurs should ask themselves the question whether the activities they are contemplating would be of some use to the common man. All businesses have a social responsibility which has nothing to do with its ordinary economic activity.

Business ethics stands for the saneness or purity of purpose that is upheld through carefully designed actual practices of business enterprises. It is an embodiment of conscious concern towards execution of business processes in tune with the nobility of the purpose.

Corporate Governance ethics : Business ethics and Corporate governance of an organisation go hand in hand. An organisation which follows ethical practices in all its activities will, in all probability, follow best corporate governance practices as well.

Corporate Governance is not something which the regulators have to impose on a management, it should come from within.

Corporate Governance is meant to run companies ethically in a manner such that all the stakeholders are dealt with in a fair manner. Good corporate Governance should look at all the stakeholders and not just shareholders alone.

The value based management and ethics of the organisation that the management has to use in its governance which would enable the organisation to establish productive relationship with its internal customers and lasting business relationship with its external customers.

A business organisation has to compete for a share in the global market on its own internal strength. Ethics in Corporate Governance would enable the organisation to establish productive relationship with its internal customers and lasting business relationships with its external customers.

