

RELEVANCE OF BUSINESS ETHICS IN CORPORATE GOVERNANCE

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(i) Abstract

Strong Corporate Governance is indispensable to a resilient and vibrant corporate market and is an important instrument of investor's protection. The essence of corporate governance involves the development of a constructive relationship between different constituents of a corporate enterprise based on the principles of fairness, transparency and accountability. Corporate governance is concerned with establishing a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs. Corporate governance helps to improve the efficiency of corporate. Therefore present study concentrates on corporate governance.

For the smooth functioning of corporate governance, business ethics is essential and vital. Business ethics is nothing but the application of ethical values to business behaviour. It is about how a company does its business and how it behaves intricately. To face competition in the markets due to new economic policies such as globalization, liberalization etc and to get more profit adopting ethical values in business is important. Business ethics in corporate governance is changing and scandals, scam and corruption within corporate governance are emerging. So corporate governance is facing problem to work properly. Failure of corporate has negative impacts on society and environment. Negligence of business ethics in corporate governance is only responsible factor for the failure of corporate. Hence present study focuses on the relevance and necessity of business ethics in corporate governance.

Ethics is not only play an important role in business but also in day today life. Honesty, sincerity, transparency and taking risk of their own responsibility are important elements of ethics one has to incorporate in his own life. Making more profit is good thing, but to make more profit it is necessary to implement ethical issues in the business. Then only

it is possible to us to get more profit beyond our expectations. Business ethics helps to maintain relationships between company and society and to regain the stakeholders of companies. Therefore it is necessary for every company to adopt the ethical culture in their company. So present paper also focuses the strategies to enhance the business ethics in corporate governance.

(ii) Key words: **Corporate, Governance, Corporate Governance, Business Ethics and Community**

INTRODUCTION

There is strong relationship between effective corporate sector and economic development of any nation. For developing countries such as India corporate sector is indispensable force for its developing economy. Corporate Governance is an effective tool to lead the corporate market. Corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems irrespective of whether they are largely bank based or market based and also have u positive effects on economic growth and poverty reduction. There is no universally accepted definition of corporate governance. In general it is a basically a set of relationships between a company's board, management, its shareholders and the society within an institutional framework. These relationships evolve into the corporate governance framework, which is "the system by which companies are directed and controlled" (Shahnawaz Mahmood:2008). Strong Corporate Governance is indispensable to a resilient and vibrant corporate market and is an important instrument of investor's protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. The essence of corporate governance involves the development of a constructive relationship between different constituents of a corporate enterprise based on the

principles of fairness, transparency and accountability. Hence present study highlights major points regarding with cooperate governance (Bose Iti: 2004).

In the context of liberalization and globalization many Indian companies are competing for foreign companies. In such case ethical issues play an important role. Ethics in general and business ethics in particular provides a conceptual discussion of the dynamics of ethics in society and the dynamics of business ethics in the market place.

Ethics is more than business foundation, it is a life foundation. It can not be compartmentalized. Business ethics has come to be considered a management discipline. It is applicable of ethical values to business behavior and process for integrating values such as honesty, trust, transparency and fairness into its policies, practices and decision making. Failures in corporate have negative effects on the society and the government (Bose Iti: 2004). Good governance is essential thing and to achieve good governance and smooth working of corporate business, business ethics is important. Cultivating and maintaining an ethical business environment with strong governance are more important today than they were five years ago. With rapid development of corporate sector, the implementation of ethical code is important. Without ethical code good governance is not possible. Therefore present study concentrates on the relevance of business ethics in corporate governance.

STATEMENT OF PROBLEM

The present study concentrates on how the business ethics is relevance and essential for good governance.

REVIEW OF LITERATURE

Mehta G.S. (2003) in his article titled with “**Dharma in Corporate Governance**” explains the meaning and importance of corporate governance. He also describes how ethical issues play an important role in good corporate governance to face increasing competition due process of globalisation and liberalization. At the end he remarked that a policy towards consistent and transparent corporate behavior should be adopted, including public justification of major strategic decisions. Dharma, lok sangrah, kausalm, vividhta and jigyaasa, the core values of the rich Indian philosophical tradition and these are the guiding forces towards good governance.

Bose Iti’s article on the topic “**Governance and Business Ethics in India**” highlights major points such as good governance, business ethics and importance of business ethics in good governance. For the present study author has selected case study of India. In this study author highlights that the public

perception of corporate ethics changed dramatically with the revelation of the unethical decision-making at WorldCom and Enron. The scandals took a toll on consumers’ confidence and portfolios and undermined their faith in the accounting profession. Corporate stakeholders have called for more transparent financial reporting and evidence of better ethical conduct.

A research report prepared by **CFO Asia in collaboration with ACCA on Corporate Governance** presents the findings of a survey of more than 160 CFOs and senior finance executives from mainland China, Hong Kong SAR, Malaysia, and Singapore. Ninety-nine respondents originated from Asian-based companies, while 31 and 27 of the respondents came from companies headquartered in the United States and Europe, respectively (three respondents returned their questionnaires noting that their companies were based outside these regions). This direct questionnaire-based research has been supplemented with in-depth, one-on-one case study interviews with executives at six companies spanning a range of company types, industries, and locations. This report also highlights the role of CFO in the implementations of business ethics in the companies. More than nine industries are represented in the survey including Manufacturing Financial services Energy & Utilities IT/Communications Leisure/ Tourism, Pharmaceuticals, Professional services, Retail/Consumer, Transport/Distribution and Other. **Shahnawaz Mahmood (2008)** article on “**Corporate Governance and Business Ethics for SMEs in Developing Countries**” Challenges and Way Forward highlights the importance of Business Ethics not only for large companies but also for small and medium enterprises. SEMs firms have already developed their reputation by adopting these ethics. SMEs around the world are increasingly becoming aware of the importance of good, trusting relationships with customers, employees, suppliers and the community. Moreover due to their linkages with larger firms through supply chains SMEs are increasingly asked about their social and environmental policies when developing their ventures with large firms. One of the most interesting indicators is that SMEs contribute significantly to industrial employment which indicates industrialization potential. This paper discusses issues SMEs are facing in developing countries (particularly in South Asia) and the need for embracing corporate governance and ethical business practices. This paper proposes that an incentive based system for encouraging SMEs to

adopt good governance practices is more likely to succeed. It also presents a market based solution through creation of venture services for the companies for engaging closely with SMEs. SMEs Chambers can also play a critical role in this regard. This paper discusses the framework through a Code for SMEs and suggests mechanism to develop it.

OBJECTIVES

- .. To understand the key concepts such as corporate, corporate governance, ethics and business ethics.
- .. To study the relevance and necessity of business ethics in corporate governance.
- .. To suggest possible strategies to enhance the business ethics in corporate governance.

KEY CONCEPTS

Governance: Governance, derived from the word *Gubernare*, means to rule or steer. Though originally meant to be a normative framework for exercise of power and acceptance of accountability thereof in the running of kingdoms, regions and towns, over the years. Governance is a set of minimum framework of rules necessary to tackle problems guaranteed by a set of institutions.

Corporate: The term 'corporate' according to the Webster Dictionary means a body having the nature of, or acting by means of a corporation. A 'corporation' in turn means 'a legal entity that exists independently of the person or persons who have been granted the charter creating it and that is invested with many of the rights given to the individual.

Corporate Governance: Applying the concept of governance in the corporate world, what we get is the term, 'Corporate Governance'. According to Maw 'Corporate Governance is a topic recently conceived, as yet ill defined and consequently blurred at edges'. Corporate Governance is defined as the distribution of rights and responsibilities among different participants in the organization, such as the Board, Managers, Shareholders and other Stakeholders and spells out rules and procedures for making decisions on corporate affair. Corporate governance is concerned with establishing a system whereby the Directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs. It is founded on the system of accountability primarily directed towards the Shareholders in addition to maximizing the shareholder's welfare. An effective corporate governance system provides mechanism for regulating the director's duties in order to restrain them from abusing their powers and to ensure that they act in the best interest of the company in a

broader sense. Corporate Governance is also concerned with wider accountability and the responsibility of the directors towards other Stakeholders on the corporation. (Mehta G.S:2003)

Components of C. G.

- Board of Directors
- Management
- Shareholders
- Employees
- Regulators
- Suppliers
- Customers
- Environment and the community

Business Ethics: Business ethics is defined as a process for integrating values such as honesty, trust, transparency and fairness into its policies, practices and decision making. Business ethics is therefore inherently linked with corporate governance. Ethics cannot be denied. The old English proverb "as you sow so shall you reap" is indicative of the significance of business ethics. A firm which applies ethical practices also expects to be dealt ethically. These expectations and consequent adoption of ethical practices create chain effect in terms of promoting ethical practices.

RELEVANCE OF BUSINESS ETHICS

Business ethics is considered as heart of corporate governance. Business ethics is noting but a process for integrating values such as honesty, trust, transparency and fairness into its policies, practices and decision making. It is essential and vital component of corporate governance. For the smooth journey of good corporate governance, business ethics acts as driver. It is the application of ethical values to the business behavior. It applies to any and all aspects, from board room strategies and how companies treat their suppliers to sales techniques and accounting practices. Business ethics applies to the conduct of individuals and to the conduct of the organization as a whole (Bose Iti: 2004). Business ethics relates to how any company conducts its business in order to make the profit.

Advantages of adopting business ethics in Corporate Governance

Corporate governance is on everyone's lips but the parameters and implications are still a subject of debate. It is not just a question of process but of mindset and values among all stakeholders. Adopting ethics can help to build reputation of businesses. Promoting reputation can help in building customer loyalty and increase in revenue.

Customers are becoming increasingly aware of their rights and they value ethical practices in corporate. In such cases having ethical culture in corporate helps to regain customers ethical values play an important role

4. Attracting talented workforce and employees as well as improved performance of existing employees increasing productivity
5. Compliance with regulations e.g. labour laws and environment etc.
6. Collaboration with other firms both domestically and internationally.
7. For the developing economies seeking to integrate with the global economy, corporate governance is of critical importance, as it is the key parameter used for evaluation by global investors or strategic partner and significant factor in improving economic efficiency and growth.
8. This could be enable companies to project themselves internationally but keep customers and suppliers happy closer to home.
9. Ethics help to eliminate the financial and business risks a company is exposed to due to unclean business negotiation and practices and as more important factor in decision making process.
10. A systematic approach to governance and ethics remains very much a work in process for many companies.
10. It is tool to eliminate fraud, bribery, resolving or removing conflicts of interest and equal treatment of shareholders. Ethical approach helps upholding the company's good name and reputation.

Many have already discussed about the ethics, ethical issues and business ethics. No one could not give the exact definition of business ethics or business ethics code model are followed by directors, employees, customers, shareholders, banker and suppliers of companies. Business ethics is process for integrating values such as honestly, trust, transparency and fairness in to its policies. In this process more important and component is value. Value is defined as standard norms of behavior is which society is expecting from members of society. Due to processes like modernization, urbanization and westernization values are changing. In this postmodern society values regarding material life is important e.g. profit making, leading luxurious life etc. Then how these ethical values or issues possible to bring in to the business. So we have to concentrate on changing values of society. We have built a strong

relationship between members of society.

Business ethics is not only a process for integrating values but also it is parameter to assess the impact of corporate on environment and community. Companies have to take care of environment protection. Unless and until there is no polices regarding environment protection. Further we will have no lives and no corporate governance.

Impact of corporate on community such as urban, rural and tribal have taken into consideration. In the name of development and growth we are ignoring some communities. We are giving more emphasis on the growth of urban areas ignoring remote rural and tribal areas.

STRATEGIES TO ENHANCE THE BUSINESS ETHIC

- Honesty, discipline and transparency in company are essential. Stakeholders should try to imbibe these values in their day today life.
- Employees should given more importance.
- Building strong and healthy relationship between employees, management and director body.
- Increment should be given to the employees.
- the role stakeholders is important
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- To remove scandals, scam, corruption and bribery from company the role stakeholders is important.
- Transparency should be necessary in accounting procedures.
- Business sustainability and the good consistent ethical culture is important.
- Business ethics and good governance are possibility correlated. To enhance the good governance ethical code is important. Cultivating and maintains an ethical business environment with strong governance are more important today than they were five years ago.
- Participation of government should increase.
- Enhancing awareness regarding business values among stakeholders.
- Building healthy relationship between private and government sector.
- Attitude towards changing values should be considered.
- Face to face interaction is essential.
- Leading a life of human being oriented rather machinery oriented.
- Enchasing the practice of ethical issues to face competition and overburden in the market.
- Regional culture should be taken into consideration for business. Global standards in

key ethical areas underscored by room flexibility at the local level.

- It is essential to implement ethical policies and ethical practices in the business.
- Rethinking of business process.
- Governance about the cost compliance and staff numbers should be taken in to consideration.
- Redtapism should be reduced.
- Ethics is related to responsibilities – that are carried in the all level of companies – till from board of directors to clerical staff of lowest level of companies. Everyone should take care about their own responsibility.
- Moral behaviour and giving importance to every person from management to low level staff.
- Identifying individual skills and inspiring and supporting him.
- Adopting policy WE of rather ME.
- Supporting practice of good business and eliminating the barriers for further improvement.
- Legal aspects should be taken in to considerations.
- Everyone has to commit the company's law regarding of where they sit on the corporate ladder or where in the world they are based. Environmental needs should be taken in to consideration.
- Removing and resolving conflict of interest in business. Relationship remains important.
- Different standard of values and norms in different cultures and geographical areas are taken into consideration.
- Integrity should be brought in business.
- Never compromise ethics for any things, including achieving revenue or other financial targets.
- Encouraging all senior executives to take leadership in upholding to integrate and implementing ethical values within their own units. They should act as a role model
- Equal treatment all shareholders.
- Keeping objectivity in information disclosures and dignity the roles and relationship between its board of directors and senior management.
- Gaining confidence from dependent and independent shareholders employees, customers and bankers.
- To have good ethics in company the leader must set the best example to the staff
- Following the requirements of a professional body.
- Accounts are responsible for executing the

system and new level of transaction and documentation which encourages discipline within the finance departments.

- Research should be conducted regarding ethical issues in business.
- All stakeholders of company are responsible for implementing and ensuring good ethical practices.
- Quality control and financial audits are important.
- Internal relationships should be maintained.
- Training related to business ethics should be imparted
- Incorporating ethical issues into staff performance appraisals.
- Orientation for new employees includes discussion about the companies expectations on behaviour and creating a stronger culture because to prevent unethical behaviour.
- Good working capital management and tight governance are very important.
- Ethical culture can be regarded as the insurance for successful business.
- Financial statements will be accurate and mean less time is spent policing activities performed in the field.
- It improves company's relationship with its banks, investors and other institution
- Good communication and informal relationships should be maintained.
- Identifying honest persons and honoring or awarding them for their work

CONCLUSION

Ethical culture can be regarded as the insurance for successful business. So for good governance ethics is essential. Therefore it is every company's moral duty to implement the ethical codes in their business. But not only essential for their business but also in their day today life. Corporate Governance is relatively new in India. Security Exchange Board of India is trying to implement Corporate Governance norms through governance norms. Today, more and more listed companies have begun to realize the need for transparency and good governance to attract foreign as well as domestic capital. Hence for good governance ethical culture is an urgent need for companies of 21st century.

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