

## NATURE AND SOURCES OF BUSINESS ETHICS

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### ABSTRACT

*A very complex and controversial issue is that of ethics. The varying ethical norms and social values many a time make the international business environment very intricate and perplexing. The term business ethics refers to the system of moral principles and rules of conduct applied to business. There is, however, no unanimity of opinion regarding what constitutes business ethics. An international marketer often finds that the norms of ethics vary from country to country. What is ethically wrong or condemned in one nation may not be so in another. Bribery, pay-offs or kickbacks are common in business in many countries. However, the extent and intensity of it vary from country to country. In some countries, it is a common practice with government officials and other employees. The law in respect of such practices also varies among countries. According to the regulation in some countries, while bribing is illegal within the country, bribing by the nation's firms in foreign markets to get or conduct business is not illegal because of the feeling that that is inevitable in some markets.*

### INTRODUCTION

Whatever may be the legal position regarding bribing, it is basically a question of the moral values and self-regulation. Some people, who hold that bribing politicians and top officials to get business is unethical, feel that paying the lower level is not unfair if the papers do not move normally otherwise.

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### **Need for Ethics in Business**

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There is a great need of ethics in business for several reasons. These reasons are as under:

**1. Ethics Corresponds to Basic Human Needs:** It is a human trait that man desires to be ethical, only in his private life but also in his business affairs where, being a manager, he knows his decisions may affect the lives of thousands of employees. Moreover, most people want to be a part of an organisation, which they can respect and be publicly proud of, because they perceive its purpose and activities to be honest and beneficial to the society. Most top managers would like to respond to this need of their employees; and they themselves feel an equal need to be genuinely proud of the company they are directing. These basic ethical needs compel the organisations to be ethically oriented.

**2. Values Create Credibility with the Public:** A company perceived by the public to be ethically and socially responsive will be honored and respected even by those who have no intimate knowledge of actual working. There will be an instinctive prejudice in favour of its products, since people believe that the company offers value for money. Its public issues will attract an immediate response.

**3. Ethics and values give Management Credibility with Employees:** Values are supposed to be a common language to bring leaderships and its people together. Organisational ethics, when perceived by employees as genuine, create common goals, values, and language. The management has credibility with its employees precisely because it has credibility with the public. Neither sound business strategy, nor a generous compensation policy and fringe benefits can win employee credibility; but perceived moral and social uprightness can.

**4. Ethics Help Better Decision-making:** Another point of great importance is that an ethical attitude helps the management make better decisions, that is, decisions that are in the interest of the public, their employees and the company's own long-term goods, even though decision-

making is slower. This is so because respect for ethics will force a management to take account of various aspects-economic, social and ethical-in making decisions.

**5. Ethics and Profit:** Ethics and profit go together. A company which is inspired by ethical conduct is also a profitable one. Value-driven companies are sure to be successful in the long run, though in the short run, they may lose money.

**6. Law Cannot Protect Society but Ethics Can:** Ethics is important because the government, law, and lawyers cannot do everything to protect society. Technology develops faster than the government can regulate. People in an industry often know the dangers in a particular technology better than the regulatory agencies. Further, government cannot always regulate all activities that are harmful to society. Where law fails, ethics can succeed. An ethical-oriented management takes measures to prevent pollution and protect worker's health even before it is mandated by law.

### **Ethical Issues in International Business**

On account of varying political systems, laws, growth rate and cultures in different nations, there arises several ethical issues and dilemmas in international business. These issues have been the subject of debate among international managers in recent years.



1. **Employment Practices:** Ethical issues may be associated with employment practices in other nation. Most often it is found that employment standards and norms are inferior in host country to those in a multinational's home country. What standards should be applied? Obvious answer is that the pay and work conditions should be the same across the nation or if divergence then to what extent. It has been observed that the companies of rich nations adopt the practice of paying low wages, and fail to protect workers against toxic chemicals. In Indonesia, foreign companies employ child labour against the norms of UNO.
  
2. **Environmental Issues:** It is often debated that whether the multinational corporations should implement home country norms of safety and pollution measures in the host country. As it is a fact that the safety and environment protection rules are very strict in western countries. If those rules are followed in developing host countries, the cost of production will be higher and the competitive strength of the local manufacturers will be eroded. If they are not followed, it goes against the ethical norms of the multinational company.
  
3. **Human Rights:** Another ethical issue in international business is of human rights. As it is often debated that whether an international firm should move to a country say China where human rights are found violated. One view is that trade with and investment in such countries hardly deter human rights abuses as it has been experienced in the case of western trade and investment relations with China. On the contrary, dismantling of apartheid in South Africa was possible through economic sanctions by some western countries. The other view is that economic prosperity and political freedom go side by side. If foreign trade and investment bring about improvement in the living standards, human rights abuses would be contained.
  
4. **Issues of Consumerism:** In developed countries, a lot of consumer protection activities take place. But in developing countries, they are lacking. It is reported that multinationals sell many harmful products in emerging economics. For example, companies market a

number of medicinal products that are banned in their home country. They often perform human trials, especially on those who are uneducated. Companies manufacturing tobacco products sell them in developing countries without sufficient warning, whereas in the home market they are sold under heavy marketing restrictions. Thus, it is advisable for multinational companies to care for social responsibility wherever they operate their business. They need apply home country norms in order to abide by ethical norms.

5. **Issue of Transfer Pricing:** Transfer pricing is a means to encourage illegal transfer of funds among the different units of a company through over invoicing/ under invoicing of export and imports. In many countries, there are strict rules restricting transfer pricing. Customs authorities are vigilant to check such practices. Even so, such practices are common. It is a fact that such practices lower the tax burden of the firm as a whole and smooth's the firm's international cash management, but it is unethical as it brings about loss to the exchequer in both the home country and the host country.

### **Conclusion**

Corruption has been a problem in almost every society in history, and it continues to be one today. There always have been and always will be corrupt government officials. International business can gain and have gained the economic advantage by making payments to those officials. But in western countries, bribery is highly unethical. Likewise, the OECD countries do not allow their companies to enjoy tax deductions for bribing overseas. Sometimes it is said that making illegal payments speeds up the approval and the multinational corporations have not to wait longer for entry. There are many cases of illegal payment reported from different corners of the globe. But for example, in China reciprocal gifts are common and not unethical. In such cases, an international manager has to draw a line between what is ethical from the viewpoint of local custom and what is clearly unethical and then to take a decision.

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