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# Importance of Business Ethics and Its Co-Relation with Profit

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## Abstract

*Ethics are beliefs regarding right and wrong behavior. An individual's interpretation of ethical behavior is strongly influenced by a combination of family influences, life experience, religious beliefs, personal values, and personal influences. In public mind, ethics in business are mainly connected with financial integrity. According to Peter Pratley, ethics have a twofold objective – "It evaluates human practices by calling upon moral standards, also it may give prescriptive advice as how to act morally in a given kind of specific situation."*

*There are many importances of Business Ethics. First, Business in particular depends on the acceptance of rules and expectation, mutual trust and fairness. Second from a personal perspective, ethical errors move quickly. Leaders are role models because they influence the ethical climate for everyone else. Third, the manager who has ethical behavior establishes an organization climate which in turn empowers employees to become responsible to assume enhanced responsibilities.*

*At most times, profit maximization and discharge of social responsibilities at maximum limit, cannot be carried out simultaneously, are bound to affect the other. Many managerial decisions have ethical implications and these decisions give rise to managerial dilemmas.*

*A company is considered to be ethical only if it tries to reach a tradeoff between pursuing its economic objectives and its social obligations.*

*Finally, ethical behavior is intrinsically valuable. There are three types of management ethics which explain the whole ethics pertaining to management: Moral Management, Immoral Management and Amoral Management.*

*Business ethics is as necessary in business as it is necessary for its existence. Because every institution runs as per ethical norms followed by management and labour.*

*Today, more and more interest is being given to the application of ethical practices in business dealings and the ethical implications of business. Many managerial choices represent Managerial Dilemmas, between the profit consideration (commercial concern) and the social consideration (welfare concern) of the organization. Many managerial decisions have ethical implications and these decisions give rise to Managerial Dilemmas.*

*Ethics requires a manager to be honest with himself and society. The manager's performance and quality reflect in the success of a business. Sometimes ethical issues occur as managerial dilemmas because they represent conflict between an organization's economic performance (measured by revenues, costs and profits) and its social performance (stand in terms of obligation to persons both inside and outside the organization).*

**Introduction:** Business ethics is a topic of great importance. The relationship between business and ethics has long been debated. If classical economists like Adam Smith and Milton Friedman were of the opinion that the only objective of business was profit maximization and business had no right to 'meddle' with ethics, the Church, in pre-medieval times, was the spokesman and judge for all spheres of the society, including business. In medieval and pre-medieval period, the Church took upon itself to regulate the moral functioning of business, making moral declarations like—all businesses must remain closed on Sunday, the 'Holy-day' when Jesus Christ was supposed to have taken a rest and it was morally 'correct' to stop working on Sundays. These two are extreme views,

known as the Unitarian View. However, around the decade of 1950, Talcott Parsons did not found the Integration View which stated that was business an extension of morality and ethics nor can business keep itself absolutely aloof from the ethical practices of the society wherein it exists and operators. This view sought to integrate the two previous views presenting a more realistic picture.

Ethics is the code of moral principles and values that govern the behavior of a person or group with respect to what is right or wrong. Ethics sets standards as to what is good or bad in conduct and decision making. Ethics deals with internal values that are of corporate culture and shapes decision concerning social responsibility with

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respect to the external environment. An ethical issue is present in a situation when the actions of a person or organization may harm or benefit others.

The principles of ethics and social responsibility are more-widely recognized and companies can use codes of ethics and their corporate culture to govern behavior, thereby eliminating the need for additional laws.

The word ethics encompasses the entire spectrum of human conduct. Business ethics encompass how a person in business deals with his or her Colleagues, Staff and Workers, Shareholders, Customers, Society, Government and the Nation.

Different meaning is given to business ethics by various people. Business ethics are rules of business conduct, by which the propriety of business activities may be judged. Ethical principles are dictated by the society and underlie broad social policies. These principles when known, understood and accepted, determine generally the propriety or impropriety of business activities, business ethics also relates to the behavior of manager.

It can be defined as an attempt to ascertain the responsibilities and ethical obligations of business professionals. Here the focus is in people, how individuals should conduct themselves in fulfilling the ethical requirement of business.

Carter McNamara has defined: "Business ethics is generally coming to know what is right and wrong in the workplace and doing what is right-this is in regard to effects of products/services and in relationship with stakeholders." "Attention to ethics in the workplace sensitizes managers and staff to how they should act so that they retain a strong moral compass, consequently, business ethics can be strong preventive medicine."

Each society forms a set of rules that establishes the boundaries of generally accepted behavior. Often, the rules are expressed in statement about what people should or should not do. These rules fit together to form the moral code by which that society lives. Unfortunately, there are often contradictions among the different rules, and you can become uncertain about which rules you should follow. For instance, if you witness a friend copy someone else's answers while taking an exam, you might be caught in a conflict between loyalty to your friend and the value of telling the truth. Sometimes, the rules do not seem to cover new situations, and you must determine how to apply the existing rules or develop new ones. You may strongly support personal privacy, but in a time when employers are tracking employee e-mail and internet usage, what rules do you think are acceptable to govern appropriate use of company resources?

Ethics are beliefs regarding right and wrong behavior.

Ethical behavior refers to behavior that conforms to generally accepted social norms. On many key issues, the identification of ethical behavior is very clear. Almost everyone would agree that lying and cheating are examples of unethical behavior. On many other issues, what constitutes ethical behavior is subject to individual interpretation. For example, most people would not steal an umbrella that belongs to someone else; however, upon finding an umbrella under a seat in a theater, one person might think it's ethical to keep it, while another might think the only ethical course of action is to turn it in to the theater's "lost and found." An individual's interpretation of ethical behavior is strongly influenced by a combination of family influences, life experiences, education, religious beliefs, personal values and peer influences.

In the public mind, ethics in business are mainly connected with financial integrity. Important as that is, the real meaning of the word "ethics" goes far beyond that. The Oxford Dictionary defines it as "the science of morals in human conduct, a moral principle or code."

**Objectives of Business Ethics:** The objectives of ethics are manifold. Ethics-

- (i) Studies human behaviors and makes evaluative assessment about them as moral or immoral (a diagnostic goal);
- (ii) Establishes moral standards and norms of behavior;
- (iii) Makes judgment upon human behavior based on these standards and norms;
- (iv) Prescribes moral behavior and makes recommendations about how to or how not to behave (therapeutic goal);
- (v) Expresses an opinion or attitude about human conduct in general.

According to Peter Pratlay (The Essence of Business Ethics) business ethics have two-fold objectives. "It evaluates human practices by calling upon moral standards; also it may give prescriptive advice on how to act morally in a specific kind of situation."

**Importance of Business Ethics in Modern Era:** There is manifold importance of Business Ethics. As breath is necessary for human body, the ethics has the importance.

In India also there are numerous case of scams and cheating the small investors of their hard earned money. To name few –MS Shoes East Ltd. For misleading investing public, Manu Chabra Group for wrecking the fortunes of about half-a-dozen companies and facing investigation on FERA violations the Harshad Mehta Epic Stock Scam claims of the Sterling.

**First,** ethical behavior is usually associated with

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important positives consequences. Honesty in one's professional development and positives future interactions. Business in particular depends on the acceptance of rules and expectations. In contrast, unethical behavior can cause serious financial losses, injury, or loss of life, and in some cases the perpetrators were sentenced to Jail. But beyond that the people and organizations that people are no longer willing to put their faith in it or its leaders, it is almost certain to fall. Nothing is more dangerous to business, than a tarnished public image- the act is that a tarnished image has direct consequences, for profits, for morale, for the day-to-day running of the business. Distrust of a company can quickly drive it to bankruptcy.

**Second,** from a personal perspective, ethical errors and careers more quickly, than any other mistakes in judgment and accounting. Laying, stealing, cheating, on contract, and so on undermine the very foundation upon which the business and professional leaders because they influence the ethical climate for everyone else. Leaders are role models. When they make ethical blunders, they are held especially accountable. No one can excuse immorality.

Third, ethical behavior is empowering for all parties. The manager who behaves ethically establishes an organization climate of supportiveness, honesty, and trust. This climate in turn empowers employees to try out new ideas, take risks, express dissent, and generally assume enhanced responsibility.

**Finally,** ethical behavior is intrinsically valuable. Those who know that they are honest, who behave humanely in their dealings with others, who are fair in their evaluations of others, and who are concerned for the welfare of the organization as a whole and the society it serves are rewarded with a peace of mind that carries no price tag.

**Types of Management Ethics:** There are three kinds of management ethics which explain the whole ethics pertaining to the management.

**Moral Management:** The opposite extreme from immoral management is moral management. That is, managerial behaviors focus on and follow ethical norms, professional standards of conduct, and compliance with applicable regulations and laws. Moral management does not pursue profits outside the boundaries of the law and sound ethical principles.

McCulloch Corporation, a manufacturer of chain saws, provides a good example of moral management. Chain saws can be dangerous to use, and studies have consistently shown large numbers of injuries from saws not equipped with chain brakes and other safety features. The Chain Saw Manufacturers Association fought hard

against mandatory federal safety standards, preferring to rely on voluntary standards even in the face of evidence that voluntary standards were neither high enough nor working. However, McCulloch made numerous attempts to persuade the Chain Saws Manufacturers Association to adopt higher standards when research results indicated that they could greatly reduce injuries. When McCulloch failed to persuade the association to support these higher standards, it withdrew from the association. Then we will discuss immoral management.

**Immoral Management:** The name itself explains the meaning. Managerial behavior devoid of any ethical principles represents immoral management. Its operating strategy is maximum exploitation of opportunities for corporate or personal gain to the exclusion of other considerations. Any "corner will be cut" if doing so appears useful. Even legal standards are barriers to be overcome rather than guides for appropriate behavior.

The Frigitemp Corporation provides an example of immoral management at the highest levels of the firm. According to testimony provided during federal investigations and criminal trials, corporate officials (including the chairman of the board of directors and the president) admitted making illegal payoffs of millions of dollars. In addition, corporate officers embezzled funds, exaggerated earnings in reports to shareholders, took kickbacks from suppliers, and even provided prostitutes for customers. Frigitemp eventually went bankrupt because of management's misconduct.

**Amoral Management:** Managerial behaviors that are indifferent to ethical considerations as though different standards of conduct apply to business than to other aspects of life-characterize amoral management. Amoral managers seem to lack awareness of ethical or moral issues and act with no thought for the impact that their actions might have on others.

An example of amoral management was Nestle's decision to market infant formula in Third World Countries. Nestle received massive amounts of negative publicity for this marketing strategy, and governments in several countries launched investigations. These investigations indicated that Nestle apparently gave no thought on the possible disastrous health consequences of selling the formula to illiterate and impoverished people in areas where the likelihood was high that it would be mixed with impure, disease-ridden water.

**Various Benefits of Management Ethics:** There are various management ethics which are useful for management, labor, society and the Government.

Carter McNamara describes various benefits from managing ethics in the workplaces as under:

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**Attention To Business Ethics Has Substantially Improved Society:** A few decades ago, children in USA worked 16 hours day. Workers' limbs were cut-off in accidents and disabled workers were condemned to poverty and often to starvation. Employees were terminated based on personalities. Then society reacted and demanded that business place high value of fairness and equal rights anti-trust laws were instituted. Government agencies were established Unions were organized. Laws and regulations were established.

**Ethics Programmes Help Maintain a Moral Course in Turbulent Times:** Wallace and Pikel explain that attention to business ethics is critical during times of fundamental change- times much like those faced now by businesses. During times of changes, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff as to how they should act consistently.

**Ethics Programmes Cultivate Strong Teamwork and Productivity:** Ethics programmes align employee behaviors with those top priority ethical values preferred by leaders of the organization. Ongoing attention and dialogue regarding values in the workplace build openness, integrity and community- critical ingredients of strong teams in the workplace. Employees feel strong alignment between their values and those of the organization. They react with strong motivation and performance.

**Ethics Programmes Support employee Growth and Meaning:** Attention to ethics in the workplace helps employee face reality, both good and bad – in the organization and themselves. Employees feel full confidence they can deal with whatever comes their way. Bennett explains that a consulting company tested a range of executives and managers. Their most striking findings: the more emotionally healthy executives, as measured on a battery of tests, the more likely they were to score high on ethics tests.

**Ethics Programmes are in Insurance Policy – They Help Ensure that Policies are Legal:** Ethical Principles are often state-of-art legal matters. These principles are often applied to current, major ethical issues to become legislation. Attention to ethics ensures highly ethical policies and procedures in the workplace, it's far better to incur the cost of mechanisms to ensure ethical practices now than to incur costs of litigation later. A major intent of well-designed personnel policies is to ensure ethical treatment of employees, e.g., in matters of hiring. Evaluating, disciplining, firing, etc.

**Ethics Programmes Help Avoid Criminal Acts “of Omission” and can lower Fines:** Ethics programmes

tend to detect ethical issues and violation early on so they can be reported or addressed.

**Ethics Programmes Help Manage Value Associated with Quality Management, Strategic Planning and Diversity Management:** This Benefit Needs for More Attention ethics programs identify preferred values and ensure organizational behaviors are aligned with those values. This effort includes recording the values, developing policies and procedures to align behaviors with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programmes in the workplace that require behavior to be aligned with values, including quality management, strategic planning and diversity management. Total quality management includes high priority on certain operating values, e.g. trust among stakeholders, performance, reliability, measurement, the feedback.

**Business Ethics VIZ-A-VIZ Profit:** Business ethics in directly related to profit. Because it is the profit in question for growing it more, business unethical steps are taken.

Frequently the impression of most people is that ethics and profits are mutually opposed to one another, and that if a company is ethical, it can forget about making profits. People also frequently seem to believe that a profitable company must necessarily be unethical. This is like saying that a company can make profits only through unethical means. Nothing can be more further from the truth. There are examples galore, from the pages of history, where not only have ethical companies made profits, but more importantly, it is only ethical companies which discharge its social responsibilities, that have survived competition and turbulent changes through the years and have contributed to Social Welfare and have continued to flourish undiminished.

'Profit is a dirty word', said Jawaharlal Nehru, in the 1950's while referring to the public sector companies. Even private companies making profits were viewed with disdain by the public. Their dealings were suspect in the eyes of the upright moral citizens of that time. This was mainly because of the distorted view of business that society had during that time. With the wide spread interest in business activities since then, with the introduction of business and management education all over the world, and with the rapid widening of the market place and the astronomical growth of consumerism worldwide, the value of profit has been given its deserved place.

Today, not only is profit not a dirty word, in fact, every company is expected to justify its existence in the marketplace, through the profit it generates. It has been



felt that any company which cannot make profits even for its own operations has no right to exist in the marketplace and should be wiped out. A sick and loss making company is a liability and a burden to society- it cannot discharge its responsibilities to the society, it cannot meet its welfare commitment to its employees, indeed it cannot even compensate its workforce for their efforts, it cannot generate revenue for its shareholders, it cannot meet consumer demands adequately and cannot do all those things that a healthy responsible organization is required and expected to do. Hence, profit is today viewed as a measure of the success of the company and its justification for sustained existence, growth and diversification.

In fact, considered from all angles, it is unethical, not to make profit, it is unethical, for a company, to make losses. Because, which cannot make profits and makes losses, mis-utilities scarce national resources cannot pay back creditors, does not make wealth for its shareholders, make huge liabilities, upsets the economy, promotes inefficiency and most importantly, cannot, at any cost discharge its social responsibility, meet its welfare commitments and jeopardizes the future of its employees. Such a loss-making company becomes a nuisance and a burden to the economy and has no right to exist in the marketplace. Moreover, it has no business to force its employees into economic insecurity, which is highly unethical.

**Conclusion and Suggestions:** Business ethics is so necessary in business as it is necessary for its existence. Because every institution runs as per ethical norms followed by management and labor.

Having discussed the nature and concept of ethics, we can say that business ethics is nothing but application of ethics in business.

Today, more and more interest is being given to the application of ethical practices in business dealings and the ethical implications of business.

However, at most times, profit maximization and discharging of social responsibilities at the maximum limit, cannot be carried on simultaneously, one is bound to affect the other. For example, Concern for Task (Productivity) and Concern for Human Beings (workers) are bound to pull each other in opposite directions. It is difficult, if not impossible, to maximize both together.

A conflict arises in trying to achieve both simultaneously. Hence, many managerial choices represent Managerial Dilemmas, between the profit consideration (commercial concern) and the social consideration (welfare concern) of the organization. Many managerial decisions have ethical implications and these decisions give rise to Managerial Dilemmas.

This does not mean that technology advancement must not be utilized or that modern methods should not be welcomed. Certainly, they should. Science and technology should, by all means, be used to uplift and make better the lives of human beings all over the world, and specially in such backward regions as this boatman lived.

However, consideration should also be given to see whether alternative means of arrangements can be made so that people are not unduly disturbed or that their trauma and upheaval is kept at a minimum. In case of the boatman, an ethical and effective solution lies in providing him with alternative employment on the bridge itself- as a security man, toll tax collector, etc.

Similarly, when mergers take place between companies or Acquisition of one company by a bigger company, where Job positions are duplicated, instead of employees losing their jobs for no fault of their, ethical business lies in Job Reassignment or Retraining for alternative Job Assignments.

A business or company is considered to be ethical only if it tries to reach a trade-off between pursuing its economic objectives and its social obligations, i.e. between its obligations to the society where it exists and operates.

Ethical issues occur frequently in management and extend far beyond the commonly discussed problems of bribery, collusion and theft, reaching into areas such as corporate acquisitions, marketing policies and capital investments. For example, after the merger of two firms, ethical question arises whether to demote or fire the employees those who have been serving honestly for so many years.

Ethics requires a manager to be honest with himself and society. The manager's performance and quality reflect in the success of a business. Sometimes ethical issues occur as managerial dilemmas because they represent conflict between an organization's economic performance (measured by revenues, costs and profits) and its social performance (stand in terms of obligation to persons both inside and outside the organization).

After doing careful study on the topic few suggestions emerge for better future of business-

- (i) The management should take the real steps which can really be useful for its employees.
- (ii) The management should sensitize the employees to follow ethics.
- (iii) The management and labour should be sincere towards society.
- (iv) The management and labour should be answerable to Govt. Authorities in case of unethical behaviors.

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- (v) The Govt. Machinery should also be honest and democratic by allowing management to discharge its professional duties, expected production and service. In other words, there should not be any illegal/dishonest demand like corruption money.

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