Business meta-ethics: Can corporation have a conscience? (Case study on theme of government and business organization)

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Introduction

The concept of 'business ethics', we must clarify the matter of definition. It is useful to distinguish between 'beliefs' about right and wrong, good and bad, or moral values, on the one hand, and, on the other, the specific patterns of conduct or action that involve those beliefs. Business is action-oriented; it deals with conduct, transactions, people relationships, buying, selling, hiring, contracting, producing goods and services. Even if we could find a theoretical system of priorities for moral values, we would have an almost impossible task in applying such priorities and criteria to this assortment of business activities and still avoid conflicts and encounters. Business has to do its own job, employing all it can learn from the variety of basic principles and theories of ethics; but not being an instrument exclusively subservient to what one or another ethical theory propounds. Metaethics talks about the nature of ethics and moral reasoning. Discussions about whether ethics is relative and whether we always act from self-interest are examples of meta-ethical discussions. In fact, drawing the conceptual distinction between Metaethics, Normative Ethics, and Applied Ethics is itself a "meta ethical analysis.
http://www.phil.cmu.edu/Cavalier/80130/part2/II_preface.html

Business ethics conduct

This brings us to an attempt to state some of the dimensions and boundaries of 'ethical' business conduct:

- Business ethics are 'applied' ethics. They have come up with an answer, not just a debate. They relate to specific patterns of conduct, not eliminating but going beyond such generalized attributes as honesty or fairness.
- Business ethics deal with relationships. They must be accepted as well as asserted; their validity depends upon mutual acceptance.
- Business ethics can often be institutionalized, with systematic procedures and rules for administering and implementing them.
- Business ethics are designed to provide a common denominator of understanding and communication between parties to a transaction or relationship, vastly simplifying the negotiation process by providing predictability and dependability in the conduct of affairs.
- A business ethic (or pattern of conduct) is valid only for the area of common acceptance by the parties affected by the transaction involved.
- Strategic management cannot ignore the place of applied business ethics in organizational planning and decision making. This article establishes some of the aspects that make business ethics unique, together with the necessary steps for making them an effective contributor to business performance. The focus is upon applied business ethics-patterns of conduct.

The usefulness of business ethics is discussed in terms of its dependence upon the total objectives of the firm, the identification of relationships and interests of affected parties in the relevant environment, and the recognition of the need for consensus and for positive implementation procedures. These structural requirements and constraints constitute a system through which effective action can be attained as management addresses the various moral, social and human elements with which business ethics has to deal. In this paper the author is not presuming to offer substantive answers to all, or even a few, of the ethical dilemmas and conflicts that business firms (or anyone else) cannot escape. Instead, what is proposed is a pragmatic approach outlining a path that can help to determine where we are, who is involved, what are the options, what are the dimensions and parameters of the problems in a business context, so that ethical issues (even those where uniquely 'right' answers are unattainable) can be treated with intelligence and fairness. How does a businessman get a practical hold of the concepts of business ethics? Is it anything more than general ethics as applied to business situations? Are there exemptions or immunities that make it possible for business firms to act in ways that would not be acceptable if only individuals were involved? If we are to address the topic of 'Making Business Ethics Useful', we need not concern ourselves here with the question of whether business itself is a necessary and legitimate institution in our society. Instead, we can proceed on the supposition that the businesses we are talking about are basically accepted as legitimate components in our free market society. It is their conduct that will concern us, not their existence.

The fact of the matter is that business relies much more frequently upon applied ethics and ethical practices than does the average individual. The explanation of this is easy. It is primarily because businesses have more relationships ('transactions', if you will) than is ever likely for the average individual. It is not just that one firm is dealing with other firms or individuals; the firm is also the framework within which employers deal with employees, salesmen with customers, bosses with subordinates. Most of these relationships develop patterns of conduct which are regarded as ethical in themselves or at least mutually accepted by the affected parties, so that it is frowned upon as unethical for one or both parties arbitrarily to depart from them. Example of Tata's Ethical code of conduct Every employee of a Tata company, including full-time directors and the chief executive, shall exhibit culturally appropriate deportment in the countries they operate in, and deal on behalf of the company with professionalism, honesty and integrity, while conforming to high moral and ethical standards. Such conduct shall be fair and transparent and be perceived to be so by third parties. Every employee of a Tata company shall preserve the human rights of every individual and the community, and shall strive to honour commitments. Every employee shall be responsible for the implementation of and compliance with the Code in his / her environment. Failure to adhere to the Code could attract severe consequences, including termination of employment (www.tata.com).

The ethical trading initiative

The Ethical Trading Initiative (ETI) is a UK based partnership of NGOs (including Oxfam, the Fairtrade Foundation and Save the Children), trade unions and high street companies. The ETI's aim is to ensure that internationally recognised labour standards are observed at all stages in the production of high street goods sold in the UK. The ETI seeks to achieve this by promoting the implementation of codes of conduct that embody such standards, which are backed by monitoring and independent verification. Corporate members of the ETI must provide an annual progress report which provides an overview of their supply chain monitoring. The reports must include details of management responsibility for ethical trade, areas of compliance and non-compliance with the codes, and corrective action taken.

Companies that are members of ETI

Premier Brands; Anchor Seafood; Asda; Tea Sourcing Partnership ;Fisher Foods ; Co-operative Wholesale Society; J Sainsbury; Lambert Howarth Levi Strauss & Co.; Littlewoods Marks & Spencer; Monsoon; Pentland Group; Safeway; Somerfield;Tesco; The Body shop

The ETI Code contains provisions including the following:

- No forced labour
- Freedom of association
- Safe and hygienic working conditions
- Living wages to be paid
- No excessive working hours

In the case of agricultural commodities (such as tea, coffee and cocoa), ethical trade is aimed at ensuring workers on plantations enjoy these rights. Ethical trade is distinct from fair trade in that it targets workers employed in plantations, exporting businesses and processing plants. By contrast, fair trade targets small farmers, and supports them to become involved in international trade by guaranteeing a minimum price to producers. Codes of conduct need to be monitored effectively to ensure proper implementation. ETI figures show that of the 14 UK corporations that have ETI membership, eleven were able to provide a progress report in the form requested. They revealed that 1,183 suppliers were evaluated for ethical performance during 1999. Of these, more than 65% were found to be in significant breach of the ETI Code, a figure that illustrates the scale of the challenge.

A recent report suggests that the growth of direct relations between commodity producers and commodity buyers (because of vertical integration) can potentially contribute to the improvement of working conditions on plantations3. If direct relations exist, cocoa buyers and processors can be held accountable for labour conditions on plantations that they use as suppliers. Another way in which ethical trading can benefit plantation workers is to emphasise code provisions that ensure freedom of association. This would strengthen worker organisations at the local and national level. These issues point to an overlap between ethical and fair trade, which, although distinct, can complement one another. An example from the coffee sector in Mexico reveals that many small farmers work on large plantations part-time to supplement their income. However, after forming an association that sells to the fair trade market, its members have ceased working on plantations as they have increased productivity and incomes as a result of entering the fair trade market.[4] Plantation owners have responded by arguing that it is unfair that buyers request improved labour conditions without contributing to the cost. But many plantations do have relatively good living and working conditions on their plantations, and a good relationship with their workers, which proves that it is possible to do so without going bankrupt. Good working conditions and salary also attract better skilled workers and increase labour productivity.

Ethical trade's advantage over fair trade lies in the fact that it is more widely applicable. Presently, the fair trade market is too small for transnational corporations to source all their primary commodities from. However, buying from sources that adhere to ETI codes of conduct would be more viable for TNCs. A downside is that plantations will often simply sign codes of conduct to create the impression they have an acceptable policy, yet do nothing to implement the code in practice, a situation that points to the importance of effective monitoring (Suparn Sharma, Jyoty Sharma, Arti Devi,2009).

Recent Examples of Companies facing corporate government unethical issues :

Following examples which discuss Ethical al practices:

1. Everonn Education

The MD has been arrested for paying a bribe to an IT official for concealing income to the tune of Rs 122 cr.Because of that the stock has been on a downward trajectory falling from 439 Rs to 260 Rs.

2. LIC Housing

LIC Houncing Finance CEO was arrested on charges of accepting bribes for sanctioning loans.Through the stock price fell initially form 258 Rs. To 186 Rs post a new MD coming in, it has recovered it loses.

3. Sattyam Computer

Executive chairman Rmalinga Raju confessed to overstating profits.Through the company has been take over by the Mahindra Group, the stock price at 73 Rs is les than half of what it was before the scam broke out.

4. DB Realty

CBI arrested promoter Shahid Balwa in connection with the 2G spectrum allocation scam. The stock has been on a continuous downhill falling from Rs. 144 in February 2011 to Rs. 59.

5. Unitech

MD Sanjay Chandra was arrested in connection with the 2G Scam. Ever since the CBI questioning started followed by his arrest, the sock has been on a downhill, falling from 45 Rs in February 2011 to 29 Rs now(www.Economic times.com, 12th septemeber,2011)

Case On Enron Scandal

Enron is a remarkable story of the creation and destruction of value in a company. It starts with Ken Lay merging two regional gas pipeline companies and evolving them into one of the largest and most successful companies in the global energy field. He and his top team transformed a $5 billion company into one with a market capitalization of $65 billion in little more than a decade. The real issue was a corporate culture that encouraged a focus on the balance sheet—or, in some cases, off-balance sheet partnerships. Enron converted business into a technical science of manipulation involving computer information systems, software, and financial analysis that did not consider social or ethical consequences. It even learned to manipulate its auditor, Arthur Andersen. The company also developed a reputation for ruthlessness with all of its stakeholders and became far more focused on short-run earnings than the effect its actions would have in the long run on its employees, stockholders and society.

Like most Fortune 500 companies, Enron may have had a code of ethics, but it was only window dressing. The role these codes play in daily business activities varies tremendously from company to company. The Enron case should be a wakeup call to companies and colleges of business, signalling that teaching people about organizational ethics, organizational integrity, and social responsibility is good business. The most profitable companies do not end up on the front page of the paper accused of ethical violations. What brought about the sudden collapse of energy giant Enron? Was Enron a failure of strategic management and organizational leadership? In fact, research shows that good corporate citizenship equals long-term profitability. Many great corporations— including IBM, Hershey Foods, Cisco, General Electric, and Starbucks—have a track record of integrity even when their stocks are not doing particularly well. Starbucks, for example, works hard to interact with the community and be socially responsible. Not only does Starbucks provide ahigh-quality product to consumers, but it also works all the way down the supply chain to make sure farmers are paid a fair price for their coffee beans. The Enron failure is causing many colleges of business to ask thoughtful questions. Are we sending out students who may be technically competent but deficient in understanding their responsibilities in managing a company and interacting with society? I feel that we need to make ethics a top priority over the next few years. The Enron scandal involves both illegal and unethical activity and the courts of law will determine the precise extent of civil and criminal liability that accrues to the perpetrators. People commit fraud, for instance, for a wide range of motives including perceived lack of effective deterrent punishment and rationalization of acceptability of illegal activity (Albrecht and Searcy 2001). To control fraud by focusing on only one dimension, such as more effective deterrent punishments, is like trying to put out a skyscraper fire with a garden hose. In addition, people harbor myths, such as organizations cannot proactively detect or prevent fraud, which only result in disempowered resignation to the inevitability of corruption and more future Enron's. The Enron scandal is one that left a deep and ugly scar on the face of modern business. As a result of the scandal, thousands of people lost their jobs, some people lost their entire pensions, and all of the shareholders lost the money that they had invested in the corporation after it went bankrupt. I believe that Kenneth Lay, former Enron CEO, and Jeffrey Skilling behaved in an unethical manner without any form of justification, but the whistleblower, former Enron vice president Sherron Watkins, acted in a way that upheld moral principles. There are many causes of the Enron collapse. Among them are the conflict of interest between the two roles played by Arthur Andersen, as auditor but also as consultant to Enron; the lack of attention shown by members of the Enron board of directors to the off-books financial entities with which Enron did business; and the lack of truthfulness by management about the health of the company and its business operations. In some ways, the culture of Enron was the primary cause of the collapse. The senior executives believed Enron had to be the best at everything it did and that they had to protect their reputations and their compensation as the most successful executives in the U.S. When some of their business and trading ventures began to perform poorly, they tried to cover up their own failures(www.aacsb.edu).

Learning's from the Enron case

Enron will be the morality play of the new economy. It will teach executives and the American public the most important ethics lessons of this decade. Among these lessons are:

- You make money in the new economy in the same ways you make money in the old economy - by providing goods or services that have real value.
- Financial cleverness is no substitute for a good corporate strategy.
- The arrogance of corporate executives who claim they are the best and the brightest, "the most innovative," and who present themselves as superstars should be a "red flag" for investors, directors and the public.
- Executives who are paid too much can think they are above the rules and can be tempted to cut ethical corners to retain their wealth and perquisites.
- Government regulations and rules need to be updated for the new economy, not relaxed and eliminated

Ethical dilemma for unethical issues

Issues of poor corporate governance have cropped up earlier in companies like LIC Housing, Mahindra Satyam (erstwhile Satyam Computer Services), Unitech and DB Realty. In all the cases, the stocks fell sharply once the investors lost faith in the leadership of the company. "Bigger investors like domestic institutions and foreign funds are the first ones to desert a stock once there are issues related to corporate governance," Predictably, small investors were badly hit and they had to really struggle to get out of the stock even at a loss. This is because in such cases the stock would be frozen at the lower circuit with only sell orders from investors, with no one willing to buy. So, it may be difficult to even exit the stock once the news hits the market. The situation could be extremely fluid and in a matter of days, the stock could be down by as much as 30-50%, depending on the extent of the damage.

Investors steps to conquer unethical issues

"The situation in one company could be very different from the other. Investors will have to evaluate each company on a case-by-case basis, before arriving at a decision.

Check Promoters' Pedigree :

The promoters of a company play a very important role in giving direction to the business of the company. So, if the company under question belongs to a larger corporate group like that of the Tatas or is a public sector entity, then the promoters will be quick to step in. "If it is a company run by a big group, the management will act fast and a damage-control mechanism will quickly fall in place and the board will take care of lapses," says Varun Goel, Head, Portfolio Management Services, Karvy Stock Broking.

A case in point is LIC Housing Finance, where the managing director was involved in a case of taking bribes for giving loans. Since the parent was LIC, a strong PSU entity, it acted fast. Immediately, a new managing director was put in place, who reassured investors that systems were in order and the business model robust. Though the stock price fell from 258 on November 23 to 186 on November 26, it subsequently recovered and on Friday it was quoting at 220. However, for smaller promoter-driven companies, that may not be the case. There may be very little management depth besides the key promoter and his family. The core business of the company could be at risk, causing most investors to lose confidence. Hence, investors need to be very cautious in such cases. "If the other members of the board don't inspire confidence, the best case here for investors would be to sell the stock even though it might mean booking a loss,". Another thing which investors need to look at carefully is how the future business of a company would be impacted. For this, we need to look at what industry or business the company is into. Companies like DB Realty and Unitech are primarily in the real estate business, which is going through a rough patch. Shahid Balwa of DB Realty and Sanjay Chandra of Unitech are under arrest in connection with the 2G scam. Stocks of DB Realty and Unitech have been on a downtrend ever since their promoters were arrested. While DB realty's shares fell from 144 to 59 trading at a loss of 59%, Unitech's fell from 45 to 29, trading at a loss of 36%. .An issue of corporate governance like the arrest of the managing director would unnerve both lenders and buyers.

"No prospective buyer would like to book a flat in a project floated by a developer whose MD is behind bars," says a fund manager who did not want to be named. Similarly, bankers would be unwilling to lend to such projects or if they did, then they would do so at very high rates. Ultimately, this will affect the profitability and model of the business, which raises the business risk for an investor. In industries like IT or education, many a time the managing director or the promoter is the key business driver. His relationships, built over the years, would have helped the company win key deals. "Lots of clients come on board due to the confidence in the promoter," says Sadanand Shetty, Fund Manager, Taurus Mutual Fund. Now, if there is an issue of corporate governance with the promoter, this situation could change. It is quite likely that new alliances or contracts may not come through at all. "The company could get tainted or blacklisted and in such a case it may make sense for retail investors to exit," says Ranjan of Way 2 Wealth.

Taking a final call : Once you have assessed the fundamentals of the business, the next thing which you need to look at is how much damage has been done to the share price already. However, experts caution retail investors from getting into averaging or buying more of the stock, when it falls. "Once an issue of corporate governance crops up, it could open a Pandora's Box and it becomes very difficult for a retail investor to keep track of such situations," says Ranjan. He points out that though the erstwhile Satyam Computer has been taken over by the Mahindra Group, its share price is still 75, which is less than half the price the erstwhile Satyam Computer used to command before the fraud came into light(Economic Times, 14th Septemeber,2011).

Conquer unethical issues

Various scams that have happened worldwide - Enron, Barrings, Madoff and now Satyam is one more. regulators need to show to the world that decisive action is taken against the culprits.

- Each company has to be looked at on a case to case basis and there is no easy way out.
- Companies with a bigger group would act quickly due to the management depth they have and ensure things are in place at the earliest.
- Stocks of lesser known companies could fall sharply if there are issues relating to corporate governance.
- If the business fundamental change due to the promoters arrest, it may make sense to exit.
- Do not average your investment merely because the stock price is falling.
- Price Waterhouse Coopers were their auditors; they need to be punished more than anyone else. Satyam was listed in the US too, what US regulators and PWC US were doing. Auditors and regulators in the US and India need to be pulled up along with the board and the independent Directors of Satyam.
- Satyam does not decide the course of economy or the stock market. Surely the impact will be bad in terms of corporate governance image of India and we may see some negative sentiment in terms of foreign investment into India, long term the markets will behave keeping in mind the macro-economic factors.
- Regulators and Auditors will become more vigilant and companies who are still cooking their balance sheets will get shut or will correct their balance sheet. Companies whose stock prices are up due to wrong balance sheets would be affected most as they will now try to get them to order and which may show a grim picture.

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