



# *Business Ethics*

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## About the Tutorial

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Business Ethics is a subject that deals with moral guidelines and good corporate governance. Companies are supposed to set high standards and adhere to certain common business practices.

In this tutorial, it has been our endeavor to cover the multidimensional aspects of Business ethics in an easy-to-understand manner.

## Audience

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This tutorial is specially designed for the students of Management, Business Law, Company executives, Legal executives. It is also intended for anyone who desires to get acquainted with the ethical aspects of running a business.

## Prerequisites

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To understand this tutorial, it is advisable to have a foundation level knowledge of business and management studies. However, general students who wish to get a brief overview of Business ethics may also find it quite useful.

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# Part 1: Basics

# 1. INTRODUCTION TO BUSINESS ETHICS

Ethics is a subject of social science that is related with moral principles and social values. 'Business Ethics' can be termed as a study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

Businesses must abide by some basic principles. It should provide quality goods and services at reasonable prices to their consumers. It must also avoid adulteration, misleading advertisements, and other unfair malpractices.



A business must also perform other duties such as distributing fair wages, providing good working conditions, not exploiting the workers, encouraging competition, etc.

## Business Ethics – Definition

There are many definitions of business ethics, but the ones given by **Andrew Crane** and **Raymond C. Baumhart** are considered the most appropriate ones.

According to Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."

Baumhart defines, "The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly."

## Features of Business Ethics

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There are eight major features of business ethics:

- **Code of Conduct:** Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- **Based on Moral and Social Values:** Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- **Protection to Social Groups:** Business ethics protect various social groups including consumers, employees, small businesspersons, government, shareholders, creditors, etc.
- **Offers a Basic Framework:** Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- **Voluntary:** Business ethics is meant to be voluntary. It should be self-practiced and must not be enforced by law.
- **Requires Education & Guidance:** Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.
- **Relative Term:** Business ethics is a relative term. It changes from one business to another and from one country to another.
- **New Concept:** Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

## Principles of Business Ethics

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The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows:

- **Avoid Exploitation of Consumers:** Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.
- **Avoid Profiteering:** Unscrupulous business activities such as hoarding, black-marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- **Encourage Healthy Competition:** A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.
- **Ensure Accuracy:** Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.



- **Pay Taxes Regularly:** Taxes and other duties to the government must be honestly and regularly paid.
- **Get the Accounts Audited:** Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- **Fair Treatment to Employees:** Fair wages or salaries, facilities and incentives must be provided to the employees.
- **Keep the Investors Informed:** The shareholders and investors must know about the financial and other important decisions of the company.
- **Avoid Injustice and Discrimination:** Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.
- **No Bribe and Corruption:** Do not give expensive gifts, commissions and payoffs to people having influence.
- **Discourage Secret Agreement:** Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- **Service before Profit:** Accept the principle of "service first and profit next."
- **Practice Fair Business:** Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- **Avoid Monopoly:** No private monopolies and concentration of economic power should be practiced.
- **Fulfil Customers' Expectations:** Adjust your business activities as per the demands, needs and expectations of the customers.
- **Respect Consumers Rights:** Honor the basic rights of the consumers.
- **Accept Social Responsibilities:** Honor responsibilities towards the society.
- **Satisfy Consumers' Wants:** Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.
- **Service Motive:** Service and consumer's satisfaction should get more attention than profit-maximization.
- **Optimum Utilization of Resources:** Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- **Intentions of Business:** Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

Follow **Woodrow Wilson's** rules: There are four important principles of business ethics. These four rules are as follows:

- **Rule of publicity:** According to this principle, the business must tell the people clearly, what it tends to do.
- **Rule of equivalent price:** The customer should get proper value for their money. Below standard, outdated and inferior goods should not be sold at high prices.
- **Rule of conscience in business:** The businesspersons must have conscience while doing business, i.e. a morale sense of judging what is right and what is wrong.
- **Rule of spirit of service:** The business must give importance to the service motive.

### Example of Unethical Business Practices

Satyam Computers, a global IT company, was defamed in a notorious list of companies involved in fraudulent financial activities. The list includes names such as Enron, WorldCom, Parmalat, Ahold, Allied Irish, Bearings and Kidder Peabody.

Satyam's CEO, Ramalinga Raju, accepted his role in a broad accounting impropriety that had overstated the company's net revenue and profit. The company had earlier reported a cash reserve of approximately \$1.04 billion that actually existed only in books but not in reality.



In his letter to his board, exposing the fraud, Satyam's Raju showed the propensity of the fraud. He stated that, "What started as a marginal gap between actual operating profits and ones reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions. ..."

Later, he described the process as "like riding a tiger, not knowing how to get off without being eaten."

## 2. CHANGING BUSINESS LANDSCAPE

### Size Matters

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Due to globalization, organizations have now become interdependent and hence accountable for the social, environmental, and political challenges that threaten to affect our shared future.

There are about 80,000 multinational companies and ten times as many subsidiaries in the world now. There are countless small and medium sized businesses. This makes the businesses entities to have more responsibility for self-regulation to accompany the process of globalization.

However, organizations face many challenges too. The ethical challenges for business organizations include:

- Labor Standards
- Human Rights
- Climate Change and
- Marketplace Integrity

### The Digital World

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Internet is a hugely influential and effective media to publicize the perceived negative impacts of a business. The consumers, employees and grassroots activists can now utilize digital means if they find that business ethical standards are unacceptable.

There are many **pressure groups** to police the business organizations as well. International pressure groups such as **Oxfam** have changed their traditional focus from the government policies to business principles of global companies. Hence, there is pressure to opt ethical standards from all angles.

Responding to the new global challenges requires more than a short-term arrangement. Organizational leaders need to respond to competing priorities such as returns to shareholders, and responsibilities to the environment or community stakeholders.

#### **Just Do It! – The Nike Way**

Nike had once become famous for its exploitative sweatshop labor in developing countries. Initially it refused to accept the responsibility for the third-party suppliers.

However, the company has now become a champion in setting labor and quality standards for suppliers. Nike is also known for raising the labor standards in developing countries. It also has allowed its competitors to access its supply chain management methodologies to take part in their ethical process.

## Global Financial Crisis Legacy

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The Global Financial Crisis (GFC) in 2008–09 was largely initiated by poor business decisions made by boards of directors of reputed companies and executives of financial and industrial sectors.

Institutional compensation practices gave its way to a new type of ethical business management practice that did not undermine the potential negative impacts of business. It was also seen as a crisis in 'institutional integrity', where both business and its regulators failed to protect society.

As a result, businesses are now being more severely scrutinized by the global monitoring organizations.

## Organizational Cultural Risk

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The occurrence and effects of GFC has led many boards to think more on compliance than performance. The managements of organizations are now focusing towards reducing unethical practices and not just profitability.

Economic success is no longer the only measurement of organizational efficiency. Moreover, defaulting to what is legal does not cut it anymore. As a result, Google, Apple, Amazon and Starbucks, for example, are finding backlashes in the UK where they have been held for their adherence to tax minimizing regimes which offshore their profits.

According to the field research, the top ethical issues confronting business institutions today revolve around:

- Insider Trading
- Illegal Political Contributions
- Environmental Violations
- Health or Safety Violations
- Improper Contracts
- Contract Violations
- Improper Use of Competitor's Information
- Anti-Competitive Practices
- Sexual Harassment
- Substance Abuse
- Stealing

### Can Organization Culture become a Bottleneck?

The New York Times published an article by Greg Smith, the former executive director and head of the firm's US equity derivatives business in Europe, the Middle East and Africa, on March 14, 2012 edition of the newspaper. Smith described **Goldman Sachs'** culture as 'toxic and destructive'. He said that he resigned because the firm had become a place where profit trumps all other considerations; what was good for the firm and making money was of dominant value.

## The Limitations of Compliance

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Business ethics challenge the cultural legitimacy of ideas such as **agency theory**, which prompted the business managers be driven by self-interest. The theory assumes that, the managers need to be incentivized for them to deliver maximum shareholder benefits.

Two US studies term 'amoral management' as both intentional and unintentional. Intentional amoral management practices occur when business and ethics are considered two separate realms. Unintentional amoral management, emerge when managers fail to canvass the ethical impacts of their decisions and actions.

There are now new researches held to investigate into how workplace context shapes managerial and employee behavior. These researches suggest that employee ethics are dynamic and that the behavioral cues of employees are taken from the social messaging of their organization in order to succeed.

Social psychology highlights that many people are likely to commit serious unethical acts in situations, such as the power dynamics embedded in workplace hierarchies. These typically result due to depersonalization in large workplaces and let the individuals to skip personal accountability.

The managers and employees can behave inconsistently across different situations. This 'argentic shift', first identified by Stanley Milgram's 'obedience to authority' of Yale research and later supported by Stanford's prison experiment, suggests that there can be an erosion of agency in an organization till the point when individuals simply follow directives.

### Examples of Unethical Practices

In November 2012, **UBS** was fined £29.7 million for failures in its systems and controls that allowed former employee Kweku Adoboli to conduct Britain's biggest bank fraud

In December 2012, **HSBC** agreed to pay a record \$1.92 billion to settle charges, which the banking giant violated US sanctions, by transferring billions of dollars for prohibited nations, it enabled Mexican drug cartels to launder tainted money through the American financial system, and it worked closely with Saudi Arabian banks linked to terrorist organizations

In 2012, **Barclays** was fined £290 million for manipulating key interest rates

## Business Ethics as the Basis of Business Strength

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Business leaders now believe that there are many preventive measures, which should be leveraged to diminish market failure. The boards and business leaders now accept their role in building institutional integrity capital. This, in turn, makes sure that the managers are capable of managing the ethical perspectives in business decisions. There is, however, a critical role of middle managers in believing the need for change and to be champions of that change.

According to Corporate Executive Board (CEB) research, organizations with **integrity capital** have low misconducts and more reporting, when employees do witness wrongdoing. **Integrity capital** is embedded in the culture and it is not a matter of control. It can shape employee behavior, including defrauding the company or offering bribes to get business.

Their research identifies five key factors in building organizational integrity:

- Management takes action in case of misconduct
- Employees can speak up about misconduct and don't fear retaliation
- Senior leaders and managers respect employees
- Managers hold employees accountable
- High levels of trust exist among colleagues

However, inculcation of an integrity system takes time and requires commitment. The culture of integrity is better than the regime of compliance.

# 3. MORAL REASONING

## What is Morality?

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In a broad sense, morality is a set of rules that shapes our behavior in various social situations. It is more sensitive doing the good instead of the bad, and therefore, it establishes a level of standard for virtuous conduct.

### The Corporate Governance Code of Coca Cola

Coca Cola makes it clear that the company is inclined towards a good business morality. Its corporate governance code starts with these starting announcements.

"At the Coca-Cola Company, we aim to lead by example and to learn from experience. We set high standards for our people at all levels and strive to consistently meet them. We are guided by our established standards of corporate governance and ethics. We review our systems to ensure that, we achieve international best practices in terms of transparency and accountability. The foundation of our approach to corporate governance is laid out in our Corporate Governance Guidelines and in the charters of our Board of Directors' committees."

## Where Does Morality Come From?

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The principles of moral ethics can be injected into any business. Ethical businesses recognize the power of conducting businesses in socially responsible ways and they realize that doing so leads to increase in profits, customer satisfaction and decrease in employee turnover.

Business ethics is concerned with applying a moral framework to the way organizations do business. From dealing with human resources issues to sales and marketing policies, ethical viewpoints can shape and change the way businesses operate.

Business ethics has both **normative** and **descriptive elements**:

- The **normative part** of business ethics has to do with understanding, how the behavior you and your employees exhibit in relation to cultural issues or social upbringing. The key to normative ethics for business owners is to understand how personal beliefs affect the choices made as a business owner.
- The **descriptive part** of business ethics, on the other hand, is related to how you incorporate "best practices" into your organization's policies and procedures.

### Henry Ford on Business Morality

"There is one rule for the industrialist and that is: make the best quality goods possible at the lowest cost possible, paying the highest wages possible."



## The Meaning of Moral "Justification"

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"Justification" in terms of business ethics can be portrayed in two different ways. In business ethics, **do the means justify the ends, or do the ends justify the means?**

Is it better to have a set of rules telling you what you ought to do in a particular situation, or should one worry more about how things are going to end up and do anything to reach that goal?

Let's take an example. John ran a medicine business in California, USA. His herbal product used to stop nausea and vomiting for chemo patients. California regulators had allowed his business entity, but federal agencies had not approved it. Therefore, selling it on national level was breaking the law. On the other hand, not selling could consign his clients to suffering. So, when federal agents came knocking on his door, he had to make a decision.

- **If the means justify the ends** — If he follows the rules no matter what the consequences are, then the agents ask John directly whether he is selling the medicine and the ethical action would be to admit it.
- **If the ends justify the means** — If your ethical interest focuses on the consequences of an act instead of what you actually do, then the ethics change. Therefore, when agents ask him whether he is selling, he has a reason to lie.

## The Importance of Context

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When we ask questions, such as "Which is more important, telling the truth or preventing harm?" often the context is more important. Context can be determined from factors such as time and place, the nature of the situation, other people's expectations, and the relevant history.

To understand the context, let's assume you are a resident of Nazi Germany, in 1940. A family of Jews is hiding in your attic. The German police come searching that particular family of Jews. In such a case, preventing harm is clearly more important than telling the truth.

## The Importance of Relationships

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Business morality largely depends on business relationships. Our rights and obligations spring largely from relationships. These include our relationships with shareholders, customers, and general stakeholders.

These relationships can offer moral reasons for particular actions. For example, relationship with your shareholder means moral duties to them (such as to offer profits and be transparent) which you do not have for non-stakeholders.

## Moral Questions are not Distinct

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Moral problems are not a separate, special or particular domain to that is followed only on special occasions. Moral issues are present all the time. Most decisions that people make usually have a degree of moral importance. The challenge is in recognizing that fact. Morality is often finding the **best choice overall**, taking into consideration the result, economics, and technical (e.g., finances) appropriateness, and balancing them against other sorts of business values, which the organization follows.



## Moral Decision Making

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There is no crafted-out formula or algorithm for moral decision-making. Good moral decision-making includes knowledge of the facts, and careful consideration of the moral values (principles) relevant to a given situation. Importantly, sensitivity and awareness of the range of interests are also highly sought in moral decision-making process.

### Getting the Facts Straight

To make a good decision, we have to get the facts of the situation straight. In some difficult cases, additional facts may make the correct course of action apparent. These facts are available through science, or from the experiences of people who have studied the situation for a long time.

### The Importance of Moral Sensitivity

Sensitivity to the moral issues involved in everyday activities is important for moral decision-making. Sometimes, we may take the help of instincts for taking trivial decisions. For example, most of us do not require an impetus to avoid lying in most cases.

For a problem with moral importance, the first and perhaps the most important step in resolving the problem lies in finding out the range of considerations. This includes an awareness of the parties going to be affected, sensitivity to the set of values or principles probably to be applied, and a sensitivity to the factors that influence the decision.

## The Role of Discussion in Morality

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If morality in business ethics is primarily about shared values, then business discussion, which can take many modes of communication with various parties, takes a central place in moral business-decision making. In many cases, more than one party may often be involved, and we should include others in our decision-making processes.

### Discussion as a Means of Consensus-Building

Discussion is important in moral business-decision making, as it is often important that others around us agree with or understand our decisions. For example, the consumer products industry often collects feedback through surveys and marketing gigs to take the business discussion forward.

### Discussion as a Way of Learning from Others

We can learn from discussing moral questions with others. Others can provide valuable insight or experience. For example, the software makers can have valuable feedback from users. That is why they beta test their products before launching a product.

## Guide to Moral Decision Making

There is no formula for making good medical diagnoses, or for giving good legal advice. All of these involve significant elements of experience and sensitivity.

Experience and sensitivity will not guarantee that a good decision is made, but they help assure that decisions are not hasty, or lacking in sufficient consideration of ranges of problems.

## Unit 2 – Applications

# 4. BUSINESS ETHICS & CUSTOMER STAKEHOLDER

## Keeping Customers on Top

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Employees, customers, shareholders, and suppliers of a firm are the key organizational stakeholders. There are obligations to these subjects that are often considered to be affected by organizational self-interest.

Customers help in holistically establishing the organizational reputation and identification. For example, Procter and Gamble is an ideal market-driven global powerhouse that has billion-dollar brands such as Olay, Tide, Crest, and Folgers etc.

It is important to realize that understanding the needs and offering high-quality products are the major attributes for a company's success.

## Customer Loyalty and Business Ethics

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Today, the contribution of customers in developing ethical programs and social responsibility standards is not quite clear. In a study, the ethical environment of a firm was found to be positively associated with customer loyalty. However, there are many variants of customer loyalty.

In competitive markets, market orientation and customer focus are the key drivers of organizational performance. Still, intense competition may also create unethical behaviors. For example, it is well documented how **Pizza Hut** and **Papa John's** attacked each other in advertising campaigns, declaring that each provided the 'freshest' ingredients. The matter was in the court of law and was resolved by civil litigation.

## Ethical Customer Stakeholder Relationships

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There is an implied reasoning about **good faith** and **fair dealing**. Performance cannot just be a matter of the firm's own discretion. This is not an ethical requirement but it has also been legally enforced in many states. Good faith and fair dealing may enforce a contract or a transaction according to the parties' expectations.

Therefore, ethically questionable practices can be treated with civil litigation. Ethically inappropriate judgments have a base for legal resolution. As an instance, **Wal-Mart** had roughly twelve lawsuits per day or one every couple of hours. **Wal-Mart is the most sued public organization**. The lawsuits stem from Wal-Mart's customer interactions and their perceptions about the organization.

## Consumer Protection and Legal Aspects

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Ethical responsibilities have a strong base of legal protection. At the federal level, the Federal Trade Commission (FTC) makes sure that consumer protection laws are enforced. Within FTC, the Bureau of Consumer Protection protects consumers from unfair, deceptive, and fraudulent business practices.



At the state level, there are consumer protection statutes and deceptive trade practices laws. Consumer protection issues include product liability that refers to a business' legal responsibility for the product performance.

False or misleading communication can destroy stakeholders' trust in an organization and may be considered fraudulent. Ethical advertising is increasingly becoming a key issue in organizational communications. Exaggerated claims and concealed facts may be a part of advertising communications. These abuses range from the unethical to the illegal.

## The Sarbanes–Oxley Act

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The 2002 Sarbanes-Oxley Act and the United States sentencing commission guidelines provide strong directives to encourage **ethical leadership**. If ethical leadership fails, especially in corporate governance, there are significant penal ties.



Under the Sarbanes-Oxley Act, boards of directors need to provide oversight for all types of auditing. They are responsible for developing ethical behaviors. Moreover, court decisions of the Federal Sentencing Guidelines for Organizations make the board members responsible for the ethical and legal compliance programs of the firms they control.

## **Misidentification**

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It has been found by research that consumers may identify with organizations and may see the overlap between firms' attributes and their own individual attributes. The concept is important because consumers may seek organizational images that are in harmony with their self-identity.

Organizational misidentification may take place if individuals perceive a conflict between their own attributes and the attributes of the organization. For example, Enron, WorldCom, Parmalat, and HealthSouth were involved in unethical practices and assumed misidentification from customers.

## **Ethical Considerations**

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Wal-Mart has experienced ethical and legal allegations concerning employment issues. Wal-Mart workers usually get a lower pay and fewer benefits than other retail stores workers. Wal-Mart work force is over 1.4 million; hence its policies are blamed for low retail wages across America. However, the company's philosophy helps save customers possibly more than \$100 billion per year.

What a company can do for success and what the company should do for success are two different aspects. In Wal-Mart's case, the customers seem to have more power, or they are the preferred stakeholders. Wal-Mart's suppliers are not 'preferred,' many communities boycott Wal-Mart, and employee treatment is scrutinized.

## **Establishing a Balanced Stakeholder Orientation**

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There are potential conflicts between customer stakeholders and other stakeholders, including the communities for natural environment or economic development. Some customers engage in self-centered approach while some other customer groups prefer organized communication and actions.

For example, Nike has been boycotted by consumer groups concerning child labor practices. In general, however, these groups are not organized or have a uniform voice. Therefore, a danger that some more powerful stakeholders may influence ethical decisions in a manner not in the overall best interests of consumers is imminent.

## **The Business Stakeholder Relationships**

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Organizational ethics programs have become popular for ethical relationships with all stakeholders. Organizations often create an ethical or an unethical corporate culture depending on their leadership and the commitment to the values of stakeholder relationships.

Strategic approach to improve organizational ethics depends on establishing, communicating, and monitoring ethical values and legal requirements of organizational history, culture, and environment.

Key customer issues today include privacy, identity theft, disclosure of product information, etc. Forming an ethical climate that looks for the needs of customers must be based on a foundation of ethical values that make concrete connections between the standards and the actions of organizations.

# 5. ETHICAL ISSUES IN MARKETING

Ethical issues in marketing arise from the conflicts and lack of agreement on particular issues. Parties involved in marketing transactions have a set of expectations about how the business relationships will take shape and how various transactions need to be conducted. Each marketing concept has its own ethical issues, which we will discuss in this chapter.

## Emerging Ethical Problems in Market Research

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Market research has experienced a resurgence with the widespread use of the Internet and the popularity of social networking. It is easier than ever before for companies to connect directly with customers and collect individual information that goes into a computer database to be matched with other pieces of data collected during unrelated transactions.

The way a company conducts its market research these days can have serious ethical repercussions, affecting the lives of consumers in ways that have yet to be fully understood. Further, companies can be faced with a public backlash if their market research practices are perceived as unethical.

## Grouping the Market Audience

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Unethical practices in marketing can result in grouping the audience into various segments. **Selective marketing** may be used to discourage the demand arising from these so-called undesirable market segments or to **disenfranchise** them totally.

Examples of unethical market exclusion may include the industry attitudes towards the gay, ethnic minority, and plus-size groups.

## Ethics in Advertising and Promotion

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In the early days of existence of corporations, especially during 1940s and 1950s, tobacco was advertised as a substance that promotes health. Of late, an advertiser who does not meet the ethical standards is considered an offender against morality by the law.

- Sexuality is a major point of discussion when ethical issues in advertising content are considered. Violence is also an important ethical issue in advertising, especially where children should not be affected by the content.
- Some select types of advertising may strongly offend some groups of people even when they are of strong interest to others. Female hygiene products as well as haemorrhoid and constipation medication are good examples. The advertisements of condoms are important in the interest of AIDS-prevention, but are sometimes seen by some as a method of promoting promiscuity that is undesirable and strongly condemned in various societies.

- A negative advertising policy lets the advertiser highlight various disadvantages of the competitors' products rather than showing the inherent advantages of their own products or services. Such policies are rampant in **political advertising**.

## Delivery Channels

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Direct marketing is one of the most controversial methods of advertising channels, especially when the approaches included are unsolicited.

Some common examples include TV and Telephonic commercials and the direct mail. Electronic spam and telemarketing also push the limits of ethical standards and legality in a strong manner.

**Example:** Shills and astroturfers are the best examples of ways for delivering a marketing message under the guise of independent product reviews and endorsements, or creating supposedly independent watchdog or review organizations. Fake reviews can be published on Amazon. Shills are primarily for message-delivery, but they can also be used to drive up prices in auctions, such as EBay auctions.

## Deceptive Marketing Policies and Ethics

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Deceptive marketing policies are not contained in a specific limit or to one target market, and it can sometimes go unseen by the public. There are numerous methods of **deceptive marketing**. It can be presented to consumers in various forms; one of the methods is one that is accomplished via the use of humor. Humor offers an escape or relief from various types of human constraints, and some advertisers may take the advantage of this by applying deceptive advertising methods for a product that can potentially harm or alleviate the constraints using humor.

## Anti-Competitive Practices

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There are various methods that are **anti-competitive**. For example, **bait and switch** is a type of fraud where customers are "baited" through the advertisements for some products or services that have a low price; however, the customers find in reality that the advertised good is unavailable and they are "switched" towards a product that is costlier and was not intended in the advertisements.

Another type of anti-competitive policy is **planned obsolescence**. It is a method of designing a particular product having a limited useful life. It will become non-functional or out of fashion after a certain period and thereby lets the consumer to purchase another product again.

A **pyramid scheme** is also an anti-competitive process. It is a non-sustainable business model that promises the participants payment or services, mainly for enrolling other people into the scheme; it does not supply any real investment or sell products or services to the public.

This business practice demands the initial investor or the "captain" to enroll other people for a fee to them who again will further enroll more people in order to be paid by the company.



## Pricing Ethics

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There are various forms of unethical business practices related to pricing the products and services.

**Bid rigging** is a type of fraud in which a commercial contract is promised to one party, however, for the sake of appearance several other parties also present a bid.

**Predatory pricing** is the practice of sale of a product or service at a negligible price, intending to throw competitors out of the market, or to create barriers to entry.

# 6. ETHICS IN HRM

Human Resource Management (HRM) deals with work force management, manpower planning and other employee related activities in an organization. Therefore, we can say that it is a special branch of management where ethics play a crucial role. HRM concerns human issues, especially those related with compensation, development, industrial relations, health and safety issues. However, there are sufficient disagreements in managing HRM issues that stem from various quarters.

## **Ethics and Market System**

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Various types of market systems affect business and HR ethics differently and hence, business ethics becomes negotiable. Occupations in which the market conditions do not favor the employees, it becomes necessary to have government and labor union interventions for controlling the possible exploitation of employees.

- Free market systems empower employees and the employers equally; negotiations are used to create win-win situations for both of these parties. Government or labor union interventions are often harmful in free market systems because they stall the operations and create unnecessary hindrances.
- With the growth of globalization, the concept of globalizing labor has gained importance. Trade unions have ceased to exist and the role of HR as such in issues like employee management, desirable policies and practices has become debatable topics.
- Many people now have the opinion that HR is nothing but a part of the stakeholders, which initiates major strategic and policy decisions to divulge the organization and gear it towards profit making.

There cannot be a single opinion about ethics in HR that is completely convincing. Market is neither an ethical institution nor an unethical one; no policies and procedures can govern and align the markets for human well-being. However, the need of these policies and procedures cannot be denied or ignored because human development is the ultimate aim of all human initiatives.

## **HRM Ethics**

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Out of all organizational issues or policies, ethical considerations are the most difficult to deal with. Issues arise in employment, remuneration and benefits, industrial relations and health and safety.



## Important Clusters of HRM related with Ethics

Some HRM issues are more important than the rest because we, as human beings, are more responsible for the development and empowerment of the human resources involved in the operation and management of organizations. Some of these issues are discussed below.

### Cash and Compensation Plans

There are some general ethical issues pertaining to the employee salaries, executive perquisites and compensations and the annual incentive plans, etc. The HR department is often under pressure to increase the band of base salaries. There is always an increased pressure upon the HR function to pay out more incentives to the top management and provide justification for the same to retain them.

Further, ethical issues arise when HR deals with long-term compensation and incentive plans by consulting with the CEO or an external consultant. There is a pressure on the HR managers on favouring the interests of the top management in comparison to that of the other employees and stakeholders.

### Race, Gender, and Disability

There are several examples of organizations where, until recently, the employees were treated differently based on the race, gender, origin, and their disability. This is not the case anymore since the evolution of laws and a regulatory framework standardized for the employee behavior. In ethical organisations, the only factor of appraisal is performance.

## **Employment Issues**

Human resource managers face many dilemmas in hiring employees. One particular dilemma stems from the pressure of hiring one, who has been recommended by a friend or someone from the family of a top executive.

Another major dilemma arises due to employees who are later found to have fake documents. Both of the issues are critical. In the first case, the person may have been trained and filling the position is critical. In the second case, the person may be efficient in his work and have the right kind of attitude. Both the situations are tough and HR managers face such cases day in and day out.

## **Privacy Issues**

All human beings working with any organization have their personal life. An employee needs the organization to directly or indirectly protect his/her personal life. This personal life includes things like the religious, political and social beliefs etc.

There are many ethical issues in HR that are related to health and safety, restructuring and layoffs and employee responsibilities. A debate is still going on whether some activities are ethically permitted and why some are not. Layoffs, for example, are not considered unethical as they were thought of in the past.

## 7. ETHICS IN FINANCE

Organizations that provide financial services cannot afford to have its employees leave their morals on the front door when they step inside. Finance usually depends on a very high level of ethics.

### **Finance Depends on Trust**

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Markets break down without trust. If financial markets are full of rogue traders, individuals will start to disengage from it, thereby reducing the capacity to find investments and hence reducing the economic growth. A market with strong ethics is more inclusive which helps it to be more liquid and offer cheaper financial options.

Financial market participants often have economic freedom, and often with good reason, but the successful financial exchanges in the world are more famous for trust than the degree of their freedom.



“It’s important to note we really did try hard.”

If trust is important and if it cannot be achieved by laws alone, how important is it to have agreements and moral codes that are beyond the law, especially when the law is often the way to codify the ethical behaviors?

## An Ethical Framework

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The simplest ethical guide for finance professionals should have three objectives:

- The first is to have higher ethical standards and a more inclusive financial system.
- The second, we should be more conscious of moral choices, but morals should not be imposed upon people in suffocating ways.
- The third objective is to keep things simple.

We often see financial market participants hesitate a moment before deciding whether to go ahead with a transaction. It is when they assess whether the transaction makes sense, feels odd or is avoidable. In that moment, people tend to ask whether they know the individuals involved in the transaction and whether a similar transaction was made earlier.

None of the two is very exacting ethical standard. We can offer these market participants some more questions, and after that it is up to them and their companies how they behave. However, that behavior should not be so ruinous that it affects the marketplace or the economy.

The key questions to ask while preparing a transaction is – have you ever faced a situation when you have put someone at an advantage over others?

Getting a loan from a client leading to its bankruptcy when one buys up the company's assets cheaper is not illegal, but it is unethical. Similarly, driving products out of market and making it hard to find is not always illegal, but it is unethical.

## The Final Consideration

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The consequences of a financial transaction lead us to ask whether a transaction and its full implications are clear, and whether they will be subject to scrutiny:

- If Yes, the moral responsibility of the market participants is lowered and they can concentrate on providing ethical service. In these circumstances, people are in a better situation to take correct decisions.
- If No, the moral burden on the financier is greater. In these circumstances, a written justification for the record would be a better option.

Individuals may often need to make their own moral choices. These cannot be easily codified into a list of dos and don'ts. However, people can and should be helped to arrive at these important answers, by allowing them to ask the right set of questions.

## Unit 3 – Ethics in Workplace

# 8. EMPLOYEES AND MORALS

Employees often need to make various moral decisions in the workplace. While many of these workplace decisions have to be made depending on moral obligations, some morally supportable decisions may require courage and need to be performed beyond the generally accepted norms.

While discussing workplace ethics, six predominant subjects are of primary importance. These are:

- Obligations to the firm
- Abuse of one's position
- Bribery and kickbacks
- The obligations to third parties
- Whistleblowing
- Employee's self-interest

## Obligations to the Firm

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Employees are hired for the company's tasks. The employees may obligate *themselves* to do the work of the particular company for financial gains. The employers often have numerous conditions to employment which the employee has to follow. These may include dress codes and respectful behavior.

## Loyalty to the Company

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Most people have a viewpoint that employees must have some moral obligations to stay loyal to their organizations. It is true that employees are obligated to do the tasks offered to them, but is it acceptable to have an obligation to work for the company in a manner that is beyond the assigned jobs?

Many employers may think so, but is not mentioned anywhere. The employees are not bound or *obligated* to have any kind of loyalty to the employers. But on a moral ground, loyalty to the company is often considered to be a good thing and it is plausible that the loyalty is rewarded through pay-raises, promotions, and good recommendations etc.

## Conflicts of Interest

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Employees can have a conflict of interest with the company. Some of these conflicts of interest are minor and include general workplace conditions or situations. However, some other conflicts may be serious and can let the employees to show disloyalty.

Generally, employees must avoid significant conflicts of interest by not involving themselves in disloyal activities. However, it is difficult enough to decide when a conflict is significant and it may not always clear what employees should do besides resisting the temptation to be disloyal.



## Abuse of Official Position

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Using the official position for private or personal gains is often considered as an abuse of power. Such abuse can result from disloyalty.

### Insider Trading

Insider trading occurs when an employee has access to company information that's usually unavailable to the public and can have an impact on the stock prices. For example, some employees may come to know that their company is going to be bankrupt before general public and they can sell all their stock. People who tend to buy the stocks will be deceived. It is also a kind of insider trading to encourage near ones to sell their stock having such "insider information."

### Proprietary Data

Companies can often have "trade secrets" which they don't want to share with other organizations, and few employees may divulge such information to the benefit of competing organizations which is unethical.

Three major arguments why trade secrets should be protected by the law are:

- These are intellectual property.
- Trade secrets theft is wrong.
- Stealing trade secrets is a violation of the confidentiality terms.

Sharing trade secrets and obeying confidentiality information is a difficult moral issue. People have the right to seek and advance employment and it is not easy to separate proprietary information from a worker's own skills and technical knowledge.

### Bribes and Kickbacks

Bribery is aimed to letting someone to act against their duties. Bribes can be very serious when it can injure people. Kickbacks are also a form of bribery that involves a person to uses his/her position to benefit a party or someone.

Bribing foreign officials for favors could harm people. However, instances of bribing are numerous and they include both large and small organizations.

**Lockheed Aircraft Corporation** had the culture of bribing foreign officials and it paid \$22 million to get aircraft contracts with foreign governments. These bribes harm governments as they have to pay too much for aircrafts, and the harm can propagate to citizens who pay taxes. In this case, the knowledge of the bribery caused a political crisis in the Japanese government.

### Gifts and Entertainment

Gifts and entertainment may be used to reward and encourage certain behavior from employees. This can result in a conflict of interest. Entertainment isn't as likely to be morally wrong if allowed to be used according to ethical standards.

The following considerations may be considered while judging the ethics of gifting:

- **The Price of the Gift:** Gifts of huge prices are more likely a bribe.
- **The Purpose of the Gift:** Gift can be used to encourage, for advertising, or as a bribe.

- **The Circumstances:** A gift given at a special occasion is different than a gift on non-special occasions, and a gift given openly is more ethical.
- **The Position of the Person Receiving the Gift.** A person in a position to reciprocate is more likely to be taking a bribe.
- **The Accepted Practices:** Gifts as “tips” for a waiter or waitress is norm, but to a CEO; it is clearly unethical.
- **The Company’s Policy:** Some companies may have stricter rules about gifts than others.
- **The Law:** Gifts against the law are usually unacceptable.

## Obligations to Third Parties

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A person is morally obligated to let others know about dangerous and deceptive business practice. However, employees should compare and judge the importance of their job duties and personal interests with the importance of the interests of others. It can be morally preferable to let the third parties know about immoral and illegal business practices, even when it is not a moral obligation to do so.

## Whistleblowing

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Whistleblowing is the act of going public with significantly immoral or illegal acts of an organization one is part of. However, someone is not a whistle blower for discussing the embarrassing or rude behavior with public, and a whistle blower doesn’t need to involve in sabotage or violence.

The reasoning given to judge a whistle-blowing activity may include the following:

- The motive must be ethical. The employee must act against the organization that committed a significant immoral or illegal act.
- The whistleblower should look for less harmful ways to resolve the issue first. Employees should tell the management and executives of wrong-doing before making the information public.
- The whistleblower should have enough evidence. It is unethical to accuse a company when there’s a possibility of company being innocent.
- The company’s fault must be specific and significant. The wrong-doing must have specific and significant reasons.

## Self-Interest

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Are the people obligated to save the interests of others by making misconducts known to the management or by alerting the public by making significant immoral acts committed by companies publicly?

It is always preferable to think rationally and impartially regarding morality. It is important to think about our life and ask the following questions:

- Are we following authorities blindly?
- Are we suffering from a moral tunnel vision?
- Are we mindlessly doing what is asked from us, without considering the impact on outside parties?
- Are we considering about our possible roles as accomplices in the immoral activities?
- Are we having a proper view of our interests against those of others?
- Is there any substantial evidence for acting against the norms?

Morality often wants us to consider the interests of everyone who can be affected by our decisions and also about the situations we are in. We can have serious social and personal obligations and depends on all these important and unique factors.

# 9. ETHICS AT THE INDIVIDUAL LEVEL

## **Ethical Behavior at the Workplace**

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What does it mean to be unethical in the workplace? It may include taking personal phone calls during your duty time; asserting that the "check is in the mail," when it is still in the making; and even stealing office supplies for personal use.

Organizations usually create an ethical standards' code or a manual is handed over when a new employee joins, which generally lists the rules and guidelines which needs to be adhered at all times.

Many issues prevent business people from being completely ethical, consistent, and fair. Ethics is a dynamic issue and sometimes it is difficult to decide at the specific moment what is considered ethical and what is not.

## **Ethical Lapses and Organizational Culture**

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Business ethics includes human qualities of, and it does not provide the angelic qualities. Therefore, if a businessman is overwhelmed, there is a possibility that ethical rules will be twisted. It is known as "ethical lapse," which is a short-term and quite rare occurrence.

Ethics at an individual level may seem to involve only the individual but it is a holistic process. There may be high pressure from co-workers, managers, or any other constituent of business culture to be unethical. Individuals may hate such pressures, and tend to work avoiding the dilemmas.

## **Basic Attributes of Ethical Workers**

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To be ethical in the workplace, the workers must have some common attributes. The most influential attributes are the following:

### **Dedication**

Dedication is one of the most important attributes of an ethical worker. Companies do seek results, but most employers look for an honest effort from employees who can be considered a "natural" at the job. When an employee joins the workforce, he/she is agreeing to offer the best for helping the company to flourish.

### **Integrity**

Integrity, or displaying honest behavior at all times, is a very important attribute. Integrity might mean, being honest in reporting or being transparent while reporting cash transactions.

### **Accountability**

Accountability means to be responsible towards the time and duty during working hours. It also means accepting responsibility, gathering yourself and willingly working towards an acceptable resolution. Taking initiative and being punctual also comes under this purview.

## **Collaboration**

Teamwork and collaboration are valuable attributes. As most companies believe that if morale is high and everyone co-works, success will follow. Therefore, it is important for employees to be team players.

## **Conduct**

Employee conduct is a very important value in ethics. Employees must treat others with respect, and show appropriate behavior. Wearing proper attire, using fine language and conducting them with professionalism are part of the job.

## **Being a Better Worker**

Understanding how to be a better person in the workplace is a good starting point for a commitment to always doing the right thing.

## **Trusting Relationships**

It is important to build trust in workplace relationships. By allowing people to open up, share information and feel comfortable in communicating are signs of a trustworthy employee. Honesty, fairness and avoiding rumors are some basic qualities.

## **Team Cohesiveness**

The ethical commitments of employees have a positive effect on team and department performance apart from enhancing individual performance. An ethical employee is a better team player, who always makes positive contributions for teams and never hinders the group progress.

## **Value to Employers**

Trust in their employees is a very important quality of companies. An unethical employee can drive entire company in legal trouble, or it can destroy the hard-earned reputation. Ethical employees working for any company are the employees who adhere to ethics policies and use ethical reasoning in making decisions.

## **Personal Wellness**

Ethical employees always increase value of an employer in public domain. Unethical acts can weigh people down with guilt and paranoia, making them hostile and fearful. Employees who spread unethical rumors or lies about others can have a paranoia as they try to remember which lies they told to whom and when.

## **Core Values**

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According to Martin Seligman, some core virtuous values influence ethical behavior and appear to have universal appeal. These are:

### **Wisdom and Knowledge**

The talent to gather information and convert it to something useful is a great quality. Wisdom is capitalizing one's experience to interpret information and being knowledgeable

to produce wise decisions. A prerequisite to be knowledgeable is knowing what to do and being able to differentiate between the right and wrong.

### **Self-Control**

It is important to have the ability to avoid unethical temptations. The decision to take the ethical path needs enough commitment to the value of good ethics. Ethical people usually say "no" to the individual gain if it is irrelevant to institutional benefit and goodwill.

### **Justice and Fair Guidance**

Fair treatment of people is important. Justice is served when a fair return is gained in return for the energy and effort expended. Certain individuals give special treatment without regard to objective criteria by which to judge fairness.

### **Transcendence**

It is the recognition of something beyond oneself more permanent and powerful than the self. When one lacks transcendence, he may tend towards self-absorption. Leaders motivated by self-interest and the exercise of personal power have limited effectiveness and authenticity.

### **Love and Kindness**

The expression of love and kindness is always productive. Research shows that there are different types of "love." In an organizational context, love means intense positive reaction to co-workers, groups and/or situations. An organization "with heart" allows love, compassion and kindness among and between people.

### **Courage and Integrity**

It is important to have the courage to act ethically and with integrity. These values let us decide right from wrong and acting accordingly. They impel one to act in the right manner without considering personal consequences, even when it is tough and needs benevolence.

# 10. WORK ETHIC AND THE WORKPLACE

We often talk about work ethics and employee contribution towards the success of an organization. It is important to understand what we mean by these issues. Why some organizations have better work culture than others?

Do modern organizations need to consider something specific to revive their work cultures? To learn all this, we must look at the problem of 'work ethic' and then try to apply it in the culture of an organization.

## What is Work Ethic?

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The dilemma of 'work ethic' is ubiquitous, but it has come to the focus since the turn of the millennium as scandals came up that have sunk the entire organizations, such as those associated with Enron and WorldCom. Ethics has now become a compulsory subject in many professional courses. Still, people find it perplexing to face the challenges they call 'work ethic'.

Max Weber first coined the term **work ethic** in 1904. He said that it did not matter whether you were a woodcutter or a farmer, you could still find solace if you did your duty perfectly. There are genuine virtues such as hard work, frugality, honesty, perseverance and integrity that form the core of **work ethic**.

All the values included in the set of 'work ethic' require us to have a degree of self-sacrifice, or dedicating ourselves to the task.

## Something Bigger Than the Self

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When an organization wants to talk about the issues around work ethic, they will first need to ask how the organizational culture is contributing. People will only offer their best when they dedicate them to a cause which they believe in. They must see something, which is bigger than they are.

Organizations will need to understand this unspoken need of employees for something bigger, if they really want to see people come to work and give their best unconditionally. Hence, organizations need to define their vision, mission and strategies, which motivate the people. It is known as **the benevolent intent** of the organization.

People, who are motivated, often find passion to work for their companies. These people come to work with an intent to let their organization achieve its goals, to support their peers and the organization for success, to empower their juniors and to grow themselves.

When employees feel that they are working for a greater purpose, they will automatically seek to maximize their own contribution. They feel their importance of their contribution to the organization. They will not feel that they are just working for the sake of compensation and it is a big achievement for the organization.

## Conducting Personal Business during Office Time

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Employees often spend most of their weekday hours on the office job. Sometimes, they often may be tempted to do personal business during office hours. Such practices can



include setting up doctor's appointments using company phones, making tour-package bookings using their employer's computers or sometimes arranging calls for a side freelance business during office time.



The imminent ethical dilemma is quite clear – the employees are abusing their employer to conduct own business on company time. However, what if you know that your children are ill? Is it then fine for you to go for a doctor's appointment using company lines? The most common rule of thumb is, therefore, to check with the HR managers or supervisors to get an idea of what counts as an offense according to the company policies.

## **Taking Credit for Others' Work**

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Employees often have to work in teams to make up marketing campaigns, or develop new products for sale or fine-tune creative services, yet everyone in a group do not contribute equally to the final product. If two members of a three-person team did all the work, will this mean that, these two people need to demand to receive proper credit while pointing out that the particular member did not do anything.

This is a very simple yet a thorny question. Singling out co-workers in a negative light could stimulate dislike. A similar thing could happen if all employees accept equal share of honor even when only a select few did the real work.

The best way to resolve this kind of issues is not to let it happen in the first place. Team members should ensure that all members of a team perform some tasks to help complete a project.

## **Harassing Behavior**

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Employees often do not understand what they should do if they see one of their co-workers harassing another, either mentally, sexually or physically. Employees have to worry for



their jobs while attempting to report a superior for harassment. They may fear that they might be labelled a troublemaker if they report inappropriate behavior.

The best way rests with the staff members who generally develop the company's employee handbook. It is their job to tell employees that, they will not be penalized for reporting the harassing behavior or inappropriate actions.

## **The Solutions to Workplace Dilemmas**

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Morality and value-based issues in the workplace are often difficult to handle when the employees need to choose between the right and wrong by their own principles. Smart employers who know how to implement workplace ethics policies are usually well prepared for the potential conflicts of interest of opinion, values and culture in the workforce.

However, managing ethical issues requires a steady and cautious approach to matters, which can potentially be dangerous or illegal.

### **Step 1: Documenting the Issues**

- Develop a workplace policy depending on your company's philosophy, mission statement and conduct guidance.
- Incorporate the policy into your performance management program to hold employees accountable for their actions.
- Alert the employees to their responsibilities to follow professional standards in their job performance and interaction with peers and supervisors.
- Revise the employee handbook to include any missing policy and provide revised handbook to employees.
- Obtain written acknowledgement from employees that they have received and understood the workplace ethics policy.

### **Step 2: Training and Guidance for Up-Keeping Values**

- Provide ethics training to employees.
- Provide instructions in learning how to address and resolve ethical dilemmas.
- Experiential learning, or role-play, may be used as an effective way to facilitate workplace ethics training.
- Provide examples of workplace ethics simulations, such as misappropriation of company funds, improper workplace relationships etc.

### **Step 3: Taking Effective Measures**

- Designate an executive in-charge of handling employees' concerns pertaining to workplace ethics.

- Consider whether your organization also needs an ethics hotline, a confidential benefit service for employees to contact whenever they need.
- Confidential hotlines assure employees' anonymity, which is a concern for "whistle blowing" actions.

#### **Step 4: The Legal and Private Angle**

- Research and apply federal, state and municipal labor and employment laws pertaining to whistle blowing.
- Refrain from making suspension, termination decisions, in connection with whistle blowing or when employee's right is protected under whistle blowing laws or public policy.
- Look for legal advice for the employee reports of workplace ethics issues that may increase your organization's legal liability.

#### **The Legal Angle**

Under the Texas Whistleblower Act, public-sector employees may be entitled to damages if an employer engages in retaliatory actions based on an employee who, in good faith, files a complaint related to workplace ethics.

The Act grants "[a] public employee who claims that his suspension, termination, or other adverse personnel action was in retaliation for his good faith reporting of violations of the law the right to sue for damages and other relief."

#### **Step 5: Keeping the Standard Intact**

- Apply workplace policy consistently while addressing employee concerns about workplace ethics.
- Use the same standard in every circumstance, regardless of the perceived intention, seriousness or the position of employees involved.
- Communicate the same rules for all employees – whether executive or front-line production roles.
- Approach every issue with equal interpretation of the company policy.

## Unit IV: Challenges

# 11. ENVIRONMENTAL CHALLENGES

Ethical issues arise in every stage of business. There is a considerable effect of environment on the application of business ethics. Let's see how the environment and various stages of business affect the application process of business ethics.

## **Ethics, Economics, and Politics**

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It is now an accepted fact that there is an integral relationship between ethics, economics, and politics. That is the reason, they should be understood when it is integrated and should not be studied in silos.

Economics is the study of individual pursuit of prosperity through markets. There are three dimensions of economic goal of prosperity, which are efficiency, growth, and stability.

Politics is concerned with the community's pursuit of justice through the government. The goal of their justice has three dimensions, namely individual freedom, equity in the distribution of benefits and burdens, and social order.

Economic and political environment can both help and distract the application process of ethics. Ethics that doesn't have support of economics and politics has no means to achieve the community ends.

## **Workplace Safety Issues**

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Businesses need to know the legal bindings related with workplace safety. It is a very important part of business ethics and not knowing the rules may prove to be costlier than usually perceived.

### **Legal Liability**

Harming customers or members of the public may make you liable for damages. The organizations must act in a legal manner to solve the legal issues. If they are unaware of the legal outcomes, they may cease to become a leading organization in their industries.

### **Image Problems**

Reputation and the image of a business is a very important factor for the organization. It may make or break a company. It has been proved that the more the reputation, the more are the profits. Therefore, image problems associated with legal process are very important for organizations.

### **The Reach of Law**

Usually, governments establish rules and procedures for business processes. Businesses that do not follow the guidelines often face large fines or penalties. Breaking law can lead to costly legal battles which may be fairly larger than the cost of maintaining legal standards. Additionally, executives at companies who break the law and engage in unethical behavior could find themselves facing criminal charges.

### **During Business Formation**

Even before the business influences the business plan to potential investors, there could be ethical issues already piling up. All the co-founders of an organization must share the same business values, principles, and ethics. If they are of conflicting principles, they will face difficulty in securing funding or even finding clients.

### **Before Employment**

Hiring and selection procedures also affect the company's ethics which can be a challenge. The organizations must be ethical in employment aspects so that they can employ the right candidate without any discrimination or partiality.

### **While Complying with Law**

A company, its management and staff must conduct business in a manner that according to certain business standards and principles. Compliance has to do with the oversight regarding certain rules and regulations, written laws or common laws. It is a very sensitive issue for businesses as not conforming to laws may make the organization obsolete.

# 12. ETHICS IN THE CYBER AGE

Doing business in the cyber age is completely different from the classical theories of business, which penned down many decades ago. Moreover, as the proliferation of internet and communication technologies have been increasing in an unprecedented rate, business organizations feel that, it is important to address the ethical issues that accompany technological progress.

It is important to realize that mere knowledge of cyber age problems is not enough; one has to take concrete steps to minimize the negative effects of the technological progress that is applicable to business organizations and individuals alike.

The major issues of cyber ethics can be broadly divided into five sections:

- Privacy
- Property
- Security
- Accuracy
- Accessibility

## Privacy Angle

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In an 1890 Harvard Law Review seminar in, Warren and Brande said the golden words about privacy. It is an ethical and moral concept. They described privacy to be:

*"Central to dignity and individuality and personhood. Privacy is also indispensable to a sense of autonomy — to 'a feeling that there is an area of an individual's life that is totally under his or her control, an area that is free from outside intrusion.' The deprivation of privacy can even endanger a person's health."*

## The Constituents of Privacy

Privacy can be broken down to limiting others' access to an individual or business organizations' information with "three elements of secrecy, anonymity, and solitude."

- Anonymity is related with the right to protection from undesired attention.
- Solitude refers to the deficiency of physical proximity of a business or an individual.
- Secrecy is the protection of personalized information from being freely accessed.

## Protection of Private Information

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Direct or indirect abuse of private information can lead to fraud and impersonation. Identity theft is a growing issue of discussion due to the availability of personal and private information on the web.

## Identity Theft

Seven million Americans were subject to identity theft in 2002, 12 million in 2011, which made it the fastest growing cyber-crime in the United States. Public records, search engines, and databases are the main culprits contributing to the rise of cybercrime.

To restrict and limit online databases from proliferating sensitive personnel information, the following commandments may be useful.

- Do not include sensitive unique identifiers, such as social security numbers, birth dates, hometown and mothers' maiden names in the database records.
- Exclude those phone numbers, which are normally unlisted.
- There must be simple and clear provision for people to remove their names from a database.
- Reverse social security number lookup services should be banned.

## Private Data Collection

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Individuals often surrender private information for various online services. Ethical business practice would be to protect this information, which may lead to the loss of secrecy, anonymity, and solitude.

Moreover, data warehouses now collect and store enormous amounts of personal and consumer transactions data. Preserving large volumes of consumer and business information is possible for an indefinite amount of time. Erosion of privacy can be done with these databases, cookies and spyware.

There is a viewpoint that data warehouses are meant to stand-alone and need to be protected. However, personal information can be collected from corporate websites and social networking sites to initiate a malicious reverse lookup. Therefore, how public domains should use information is an ethical debate.

## Property Issues

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The concept of property is an issue of ethical debate for a long time. Some people argue that the internet is based around the concept of freedom of information. However, controversy over ownership has frequently occurred when the property of information is infringed upon.

## Intellectual Property Rights

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The increasing speed of the internet services and the emergence of file compression technology, such as mp3 have led to Peer-to-peer file sharing, which is a technology that permits users to anonymously transfer and share files to each other.

Services offered by Napster or Bit Torrent fall under the issue of file transfer and sharing. These sites offer copyrighted music and content which are illegal to transfer to other users.

Intellectual property rights include a host of rights that belong to businesses of individuals, such as patents, copyright, industrial design rights, trademarks, plant variety rights, trade

dress, and in some jurisdictions trade secrets. We take up the most important constituents that having an ethical dilemma associated with them.

## **Patent Rights**

A patent is a form of right granted by the government to an inventor, so that he may benefit monetarily from his/her invention. Many businesses have their R&D departments and their patents bring a source of revenue for them. It is constantly believed that patent infringement is common in the cyber age and that it should be dealt legally and ethically with the strictest norms.

## **Copyright Violation**

A copyright gives the creator of original work exclusive rights to it, usually for a limited time. Copyright is usually applicable to creative, intellectual, or artistic forms, or "works". As is obvious, copying and re-creating the matter is quite easily possible in the age of information. This raises the business ethics questions whether copyright protection should be made mandatory for all creative productions. The limit of copying and re-creation is also an ethical issue.

## **Trademarks**

A trademark is a recognizable and unique sign, design or expression, which distinguishes products or services. It has been quite easy to duplicate trademarks in the age of computers and internet. It raises the concerns whether there should be any mercy to those who use trademarks unethically or illegally.

## **Trade Secrets**

A trade secret is a formula, practice, process, design, instrument, pattern, information which is secret and by which a business can obtain an economic advantage over competitors or customers. Trade secrets theft can be considered unethical because it may be tough to create or ideate a unique formula, but quite easy to replicate it.

## **Digital Rights Management (DRM)**

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The introduction and use of digital rights management software, has raised the question of whether the subverting of DRM is ethical. Some see DRM to be an ethical step; others believe that, this is wrong because the costs of products or services may go up due to DRM.

DRM is also portrayed as defenders of users' rights. This allows, for example, making copies of audio books or PDFs they receive; also allowing people to burn music they have legitimately bought to CD or to transfer it to a new computer is an issue. It looks like a violation of the rights of the intellectual property holders, leading to uncompensated use of copyrighted media.

## **Security Concerns**

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Security, in business domains, has long been an issue of ethical debate. Is it important to protect the common good of the community or we should safeguard the rights of the individual? There is a continual and growing dispute over the boundaries of these two ideas. This raises the question whether making compromises are right.



As countless people connect to the internet and the amount of personal data that is available online goes on to increase indefinitely, there is susceptibility to identity theft, cyber-crimes and computer hackings.

There is also an argument over ownership of the internet. People tend to ask who has the right to regulate the internet in the interest of security. This is a very complicated issue because huge amounts of data and countless people are associated with the internet.

## **Responsibility of Accuracy**

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The issue of accuracy is evident. We must ask questions like, who is responsible for the authenticity and fidelity of the information available online. Ethically, the concept includes a debate over who can contribute content and who should be held accountable when the content is erroneous or false. This also has a legal angle for compensation for the injured party due to wrong information and loss of capital due to these accuracy defects.

## **Accessibility, Censorship, and Filtering**

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The arguments that apply to offline censorship and filtering apply to online censorship and filtering. Is it better to have free access to information or should be protected from what is considered by a governing body as harmful, indecent or illicit. The issue of access by minors is also a major concern.

Many companies restrict their employees' access to cyberspace by blocking some sites, which are relevant only to personal usage and therefore destructive to productivity. On a larger scale, governments also create large firewalls, which censor and filter access to certain information available online which is often from foreign countries to their citizens and anyone within their borders.

# 13. WORKPLACE VIOLENCE

Workplace violence is an action of physical violence, harassment, intimidation, or any other type of disruptive behavior that takes place at the worksite. It includes all forms of behavior, starting from threats and verbal abuse to various forms of physical assaults and even the act of homicide. Workplace violence can affect and engage employees, clients, customers and/or visitors.

## Risk Prone Areas

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Violence can occur anywhere, anytime, and everyone is at risk. There are various factors that may increase the risk of violence for select workers or at certain workplaces. The factors include jobs that involve exchanging money with the public and places where people have to work with volatile, unstable people. Places where one has to work alone or in isolated sites are also vulnerable.

Places of providing services and care, and places where alcohol is served may also increase the potential occurrence of violence. Working late at night or in areas with high crime rates are also more prone to violence.

Workers who exchange money with the public, delivery drivers, healthcare professionals, customer service agents, public service workers, law enforcement personnel, and those who work alone or in small groups are at higher risks.

## Preventive Measures

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The risk of assault can be prevented or minimized if employers take appropriate precautions. A zero-tolerance policy for workplace violence is a good way to start with.

By taking their worksites into consideration, employers can find out the methods for reducing the likelihood of incidents occurring. A well-written and implemented Workplace Violence Prevention Program, combined with engineering controls, administrative controls, and training can help to reduce workplace violence issues.

## Types of Aggressive Behaviors

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We can categorize aggressive behavior into three types:

- **Disruptive Behavior** – It disturbs a normal workplace environment. Disruptive behavior may include screaming, swearing, waving arms, punching gestures, verbally abusing colleagues, and denying response to a legitimate request for information.
- **Threatening Behavior** – It includes moving very close to a person aggressively or making oral or written threats to people or property.
- **Violent Behavior** – It includes physical assaults, which may be unarmed or armed. It also includes any action, a reasonable person would believe is potentially violent. For example, throwing stuff, pounding on a desk or door, smashing workplace objects, or threatening to hurt or shoot another person fall within violent behavior.

In general, how to deal with employee performance problems or interpersonal conflict?

- Quick intervention is the key. Letting problems fester is a recipe for violence.
- Checking with the firm's HR department to find the proper role in handling the situation is desirable.
- Determining all the facts of the situation is desirable. This information should be secured from all parties engaged in the conflict.
- Set clear expectations for need of quick resolution of the conflict
- When all parties have agreed for a solution, monitoring its implementation and getting re-involved is necessary.

## Warning Signs

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Always be on the lookout for the following warning signs of probable workplace violence. The signs of troubling behavior include:

- Being upset over a recent work or personal incident
- Suspicious behavior
- Appearing unprepared at work
- Withdrawing from normal work and after-work activities
- Yelling or being verbally abusive to others
- Not following a supervisor's directions
- Blaming workers for problems at work or at home
- Being suspicious of others
- Having grudges
- Using alcohol or showing up to work drunk
- Having an inappropriate romantic attachment at workplace
- Following a supervisor or colleague
- Threatening to take violent action against a supervisor
- Developing an unusual fascination with weapons
- Being fined or booked for a violent act outside work
- Disclosing plans to hurt or attack people at work

Attitudes that might suggest potentially violent actions include:

- Desiring to stay alone
- Acting morally superior or self-righteous
- Having a sense of personal entitlement
- Getting abused, or feeling wronged, or victimized
- Believing that no other options exist except violence

Knowing about imminent violence and violent behaviors can help minimize the occurrence of workplace violence.