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Business Ethics and Corporate Governance: Blend of Morality with Compliance

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ABSTRACT

Corporate Governance is widely used to instill the principles of ethical conduct in day to day management of businesses. Emergence of numerous scams, signaled that not everything is fine while doing business by a corporate. Corporations must not behave as ruthless predators who prey upon innocent customers, resources of a country without giving a thought about their responsibilities towards the society, upon which they are depending for their survival. Establishing an code of conduct based on ethics for corporations was thus looked upon as a solution to the tame the greed and protect the interest of the stakeholders. Through corporate governance model is that the balance between profit and protection can be ensured. Transparency, fairness, and accountability, are the important pillars of any corporations and it is duty of the top management of any corporation to ensure the abidance of them. Through this paper an attempt has been made to decodify the term ethics and study its relevance for corporate world.

Keywords: *Corporate Governance, Business Ethics.*

I. INTRODUCTION

The term governance is derived from the Latin word gubernare which means to steer². (like steering a ship). For corporates it implies giving direction to the day to day dealing of the business. Gone are the days when corporates were only considered as profit making entities with no obligation towards the society they work in. Today a corporation is not just a business entity whose only work is to do business, but is looked upon as an entity whose duty is also to serve the society. This change in attitude is attributed to various corporate scams that shook the world.³ It was realized that corporates cannot be left like an unruly horse, and must be confined to certain norms of doing business. the term “corporate governance” denotes relationship of the management of the corporate with its employees, shareholders as well as the society. This relationship is greatly determined by the societal pattern of the country in which the corporation

¹ Author is an Asst. Professor, India.

² Ethics, Governance And Sustainability, Module 2 Paper 6 <available at> <https://www.icsi.edu/media/web-modules/publications/EGAS-Final.pdf> (last accessed on 28/07/2021)

³ Enron case: accounting and corporate fraud. Leadership fooled regulators with fake accounting practices.

is established. For example in countries like UK and USA the Anglo Saxon mode⁴ of corporate governance is prevalent, while India follows a mix of Anglo and German model.

The concept of corporate governance comprehends the agenda of rules, relationships(between owners, managers, directors, regulatory authorities) systems and processes(delegation of authority, reporting requirements and accountabilities) within which and by which fiduciary authority is exercised and controlled in corporation.⁵ It represents the value framework, the ethical framework and the moral framework under which business decisions are taken. By following a model of Corporate Governance it is expected to establish rule of law, transparency, accountability of the management and thereby protect the interest of the public.

Essentials of a corporate governance model:

Any good model of corporate governance works on the principles of:

- Accountability
- Participatory
- Consensus Oriented
- Transparent
- Responsive
- Effective and efficient
- Equitable and Inclusive

II. IMPORTANCE AND BENEFITS OF CORPORATE GOVERNANCE

By following a model of corporate governance a corporation is able to:

- better allocate the resources ensuring that the resources flow towards sectors where they can be used in efficient manner resulting in optimum results for shareholders.
- Ensure administration of business by able managers who act independently and work in the interest of the stakeholders.
- Maintain balance between its corporate ambitions and compliance of legal rules and regulations.
- Achieve higher consume satisfaction.
- Achieve employee satisfaction.

⁴ Shareholder oriented model. Directors are not independent of management .Companies are run by professional managers who have negligible ownership stake. Ownership remain separate from management.

⁵ Dr. Mahesh Kumar Sarva, *Corporate Governance and Ethics* , <available at> [https://ebooks.lpude.in/management/mba/term\(last accesses on 28/07/2021\)](https://ebooks.lpude.in/management/mba/term(last%20accesses%20on%2028/07/2021))

III. BUSINESS ETHICS

The term “ethics” is derived from the word “ethos” which refers to character, guiding beliefs, standards and ideals that pervade a group, a community or people.⁶

Ethics are set of principles or standards of human conduct that govern the behavior of individuals or organizations. It deals with morals and obligations and what is right and wrong. In the business field ethics is understood as application of moral and ethical norms to business. ethics is important in business for several reasons. A corporation does not act in isolation, but deals with various stakeholders that together constitute society. The society expects the corporation to work in its best interest. Where the corporation works honestly and with fairness and accountability it is able to gain trust of the customers, and other stakeholders which helps it to establish long term relationship. Business ethics refers to a ‘code of conduct’ which businessmen are expected to follow while dealing with others⁷

IV. ADVANTAGES OF BUSINESS ETHICS

Companies that follow ethical model of doing business are able to gain trust of investors. transparent and accountable management enables the investors to repose confidence of the investors. The company is thus able to make good capital. Companies that follow an ethical path score upon other competing firms.

Attracting skilled personal: ethical climate at work place ensures greater participatory of the existing employees as well as attract good employees. The employees are able to trust each other, take decisions and act on the decisions of the other co employees.

Establish long term relationship: compliance by companies of ethical principle ensure loyalty of investors towards the companies.

Customers Satisfaction: best practices at work place ensure customer satisfaction. The company is able to establish a relationship of trust and mutual respect with the customer. When a company is able to set high ethical standards any crisis or mishaps are tolerated by customers and they remain loyal to the customer.⁸

⁶Ethics, Governance And Sustainability Module 2 Paper 6 <available at> <https://www.icsi.edu/media/webmodules/publications/EGAS-Final.pdf> (last accessed on 28/07/2021)

⁷ ibid

⁸ Governance, Risk Management, Compliances And Ethics Module 1 Paper 1 <available at https://www.icsi.edu/media/webmodules/GOVERNANCE_RISK_MANAGEMENT_COMPLIANCES_AND_ETHICS.pdf> (last accessed on 29/07/2021)

V. RELEVANCE OF BUSINESS ETHICS

Businesses have pressure to perform well, earn profits and to comply with laws, pay taxes etc. all this may tempt the businesses to opt for illegal means. Increasing competition further intensifies the urge to outperform the others. businesses falling prey to such temptations may indulge in bad practices like fraud, insider trading etc. by opting to these practices one may earn profit for the while but they suffer in the long run.

While living in a globalized world has greatly changed the way of doing business, it has at the same time made it imperative for business to follow an ethical code of conduct for if they do not follow ethical practices in doing business they may not only loose the customers but also attract disrepute to them.

Ethical issues faced by businesses include managing employee relationship⁹ investor relationship¹⁰, customer relationship¹¹ and vendor relationship¹².

Ethical lapses may also reflect serious and harmful errors in ethical judgement. They may also include ethical misconduct, such inflated resumes and sexual indiscretions. Some examples of work place ethics that costed companies:

Wells Fargo: paid three billion dollars against civil and criminal charges where banks aggressive sales goals led to widespread consumer abuses including millions of accounts opened without customer's consent.

McDonald fired their CEO for dating employee. though the relationship was consensual, the U.S. Fast Food Corporations held that he violated company policy and had shown poor judgement.¹³

VI. CORPORATE GOVERNANCE AND ETHICS

The concept of corporate governance is a potent means to ensure ethical conduct of businesses. The focus of any corporate governance model is at the top most management which is constituted of board of director. Director play a pivotal role in just decision making but also in creating an ethical work culture at workplace. The various theories of corporate governance agency theory, stewardship, ensure that a corporation is able to manage its relation with all the

⁹ how managers relate work and employee.

¹⁰ the relationship a company has with those that support it financially

¹¹How a company takes care of, relates to communicates with its customers.

¹² the relationship a company has with those that supply the products and services it needs

¹³ Susan M. Heathfield, Avoiding Ethical Lapses at Workplace, TheBalanceCareers <available at<https://www.thebalancecareers.com/did-you-bring-your-ethics-to-work-today-1917741>,> (last accessed on 29/07/2021)

stakeholders including creditors, distributors, customers, employees and with society at large. Good corporate governance should look at all stakeholders and not just the shareholders alone.

Corporate governance model focuses on compliance system.

- **Regulatory Compliance:** this denotes corporation's compliance to laws, regulations guidelines and specifications to businesses. Violations to them leads to legal punishments including penalties and fines.
- **Corporate compliance:** is a formal program specifying an organizations policy, procedures and actions within process to help prevent and detect violations of laws and regulations. Establishing a code of conduct. A code of conduct is an important component of a compliance program and ethics remain the heart and soul of all corporate compliance programs.
- **Legal compliance:** is a process to ensure that an organization follow relevant laws, regulations and business rules. Legal Compliance for corporates means understanding and adhering to the ethical code of conduct set by any organization. A corporation can ensure the compliance by making policies in consonance with the laws of the country, putting in place an internal check system for internal monitoring of employee behavior at work place. With a stringent legal compliance mechanism, risk can be accessed, monitored and dealt efficiently.¹⁴

Compliance system may include:

- Predicting the impact of new regulations on strategic directions
- Determining the right compliance roles and accountability between legal compliance, audit and business functioning
- Defining and measuring compliance value and managing performance expectations.
- Developing integrated compliance capabilities to better anticipate global trends, increase efficiency, and participate in the evolution of the company's core strategies

VII. CONCLUSION

Corporations are motivated to adopt corporate governance model suited to their business types. An important aspect of corporate governance is compliance mechanism. Companies are adopting comprehensive strategies that may tackle regulatory requirements. It is important that compliances be made as per spirit of law, and under corporate governance it simply means obeying the law. Ethics is expressed in the intent in doing what is right. Revelation of any

¹⁴ Supra at 6

corporate scam ensures once again that ethical compliance management is the only solution to corporates falling prey to temptations. India being a fast developing economy, is in the eyes of the world for investments. It must ensure ethical conduct of business and true, fair and accountable governance of corporate governance.
