

Business Ethics And Corporate Governance: A Global Perspective

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INTRODUCTION

It is only in the recent years that Business Ethics and Corporate Governance have become almost a public issue and have started getting favourable responses from the corporations, government agencies, shareholders, employees, suppliers, customers, competitors, the news media, community residents etc. i.e. the entire society. In fact, business ethics and corporate governance go hand in hand. With the growing strength of consumer movements and rising levels of awareness among stakeholders, corporations are realizing that stakeholders and consumers are no longer indifferent to unethical practices like financial irregularities, tax-evasion, poor quality products and services, non-compliance with environmental issues, and hazardous working conditions. Companies have now begun to integrate ethics into their corporate cultures and concentrate on putting appropriate corporate governance mechanisms in place. *“Unethical practices may contribute to immediate gain but always at the cost of future prospects.”* (Shastri, 2005). Corporate corruption scandals have increased drastically over the last few years throughout the world. Business Ethics are more forceful, more influential, more effective and even more helpful in corporate governance than the anti-corruption programs; as the Institute Of Business Ethics, UK does rightly have the motto: *“Doing Business Ethically Makes For Better Business.”*

BUSINESS ETHICS

Many people have the conception that Ethics were invented by some religion and/or philosophy. Ethics were not invented by any religion or philosophy. Ethics were there much before religion or philosophy were invented just as Gold was there much before economic systems (i.e. barter, money etc) were invented to use it and animals existed before zoology was invented to study them. Ethics and morals are rather the sources of religion and/or philosophy. Ethics are a mass of moral principles or set of values about what conduct ought to be. The purity of behavioural responses is a reflection of the character of a person. It can be said that :

ETHICS = TRUTHFULNESS + TRANSPARENCY + RIGHTEOUSNESS + MORALITY.

“Ethics may be defined as some standardised form of conduct which may be used to determine what is good or what is bad, what is right or what is wrong, what is true or what is false, what is just or what is unjust, what is proper or what is improper, what is fair or what is unfair and what should be done and what should not be done” (Banik, 2008).

The phrase **business ethics** refers to identifying the difference between right and wrong and choosing to do what is right. It can be used to describe the actions of individuals within an organization, as well as the organization as a whole. These are the written and unwritten codes of principles and values that govern decisions and actions within a company. In the business world, the organization's culture sets standards for determining the difference between good and bad decision making and behavior. **Business Ethics** are the rules of business conduct, by which the propriety of business activities may be judged. It is the society which dictates the ethical principles. Such principles attempt to ascertain the ethical obligations of the business.

CORPORATE GOVERNANCE

“Governance implies a degree of control to be exercised by key stakeholders' representatives..” (Bhatia, 2004).

Corporate governance is related to how the various constituencies that define the business enterprise serve, and are served by the firm. It encompasses within its orbit, all implicit as well as explicit relationships between the corporation and its employees, customers, creditors, suppliers and all other stakeholders. *“Fundamentally, shareholder vs.*

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stakeholder debate diverts attention away from the role of the management itself.” (Maheswari, 2003).

“CG refers to the system of checks and balances surrounding the exercise of corporate power.” (Joshi, 2003).

“Corporate Governance refers to the relationship that exists between the different participants and defining the direction and performance of a corporate firm” (Prasad, 2006).

HOW BUSINESS ETHICS INFLUENCE CG

Like never before, corporations are being asked, encouraged and prodded to improve their business practices to emphasize legal and ethical behavior. Companies, professional firms and individuals alike are being held increasingly accountable for their actions, as demand grows for higher standards of corporate social responsibility.

As recently as a decade ago, many companies viewed business ethics only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. But today, attention to business ethics is on the rise across the world and many companies realize that in order to succeed, they must earn the respect and confidence of their customers. Corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the one hand with community and individual aspirations on the other.

ETHICAL DILEMMA

Ethical dilemma refers to the situation where it is very difficult to choose what is right and what is wrong. In such a situation, there are significant value conflicts among different interest groups and at the same time, the alternatives seem to be equally judicable. In this connection, the recent Singur case may be cited as an appropriate example. The Singur farmers were protesting against the forced acquisition of their lands by the government so that Tata's latest dream project - a plant to build India's "one lakh car" (100,000 rupees or just over \$2000) - could become a reality. Here, on one side, there was the interest of the poor farmers and at the same time, on the other hand, it was Tata's latest dream project.

SOME BUSINESS ETHICS / CORPORATE GOVERNANCE INSTITUTES/SITES - A GLANCE

The corporate governance scandals have become almost a global phenomenon and as such, institutions have come up in different countries for training as well as research on business ethics and corporate governance. Below, a glimpse of some randomly selected institutions across the world has been included:

1. Institute Of Business Ethics, UK : This institute has the motto: *Doing Business Ethically Makes For Better Business*. The institute was established in 1986 to encourage high standards of business behaviour based on ethical values. They have the vision : “ To Lead The Dissemination Of Knowledge And Good Practice In Business Ethics.” They raise public awareness of the importance of doing business ethically and collaborate with other UK and international organisations with interests and expertise in business ethics.

2. European Corporate Governance Institute (ECGI) : It was founded in 2002. It has been established to improve corporate governance through fostering independent scientific research and related activities. The ECGI is an international scientific non-profit association.

3. Center For International Business Ethics (CIBE), Beijing, China : Using his insights into Chinese philosophy, Stephan Rothlin, general secretary of CIBE has developed a textbook in Chinese, *Becoming a Top-Notch-Player: 18 Rules of International Business Ethics* (Beijing: Renmin University Press, 2004). Business and Economics.

4. Business And Organizational Ethics Partnership, China : It brings together executives and scholars in a forum designed to increase the members' knowledge about effectively managing ethics in their organizations. Founded in 2003, the partnership currently includes 14 business organizations and 10 faculty members who share the goals of honing ethics and compliance policies and practices, and advancing the state of business ethics knowledge.

5. Institute For Global Ethics : The Institute for Global Ethics' mission is to promote ethical behavior in individuals, institutions, and nations through research, public discourse, and practical action.

6. European Business Ethics Network : The European Business Ethics Network, EBEN, is an international network dedicated to the promotion of business ethics in European private industry, public sector, voluntary organizations, and academia.

7. World Council For Corporate Governance : The World Council for Corporate Governance is an independent, not for profit international network aimed to galvanize good governance practices worldwide. It was established at the first International Conference on Corporate Governance held in January 2001 in New Delhi.

8. International Society Of Business, Economics, And Ethics : The International Society of Business, Economics, and Ethics (ISBEE) is a professional association focusing exclusively on the study of business, economics, and ethics. The site includes a newsletter, documents and the papers from their world congress.

9. Council For Ethics In Economics : The Council for Ethics in Economics is a worldwide association of leaders in business, education, and other professions working together to strengthen the ethical fabric of business and economic life. The site includes the quarterly publication “**Ethics and Economics.**”

10. Center For Ethics And Business : The Center for Ethics and Business at Loyola Marymount University in Los Angeles aims to provide an environment for discussing issues related to the necessity, difficulty, costs and rewards of conducting business ethically.

11. Ethical Trading Initiative : The Ethical Trading Initiative (ETI) is an alliance of UK companies, non-governmental organizations (NGOs) and trade union organizations. Its objectives are to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions.

12. International Business Ethics Forum : Built by MBA students at the Joseph M Katz Graduate School of Business at the University of Pittsburgh, under the direction of Assistant Professor Bradley Agle, the site contains information pertaining to the business ethics climate in a number of countries in every region of the world.

BE AND CG IN SOME RANDOMLY SELECTED COUNTRIES

1. INDIA

Although the discussion on ethics is almost a general phenomenon in India, unethical business became a recognized phenomenon in this country during the Second World War. The concern with business ethics has become visible only during the nineties. Although there is a strong belief in corporate social responsibility in India, the decisions are not made in a participatory way, but by the persons at the top. In terms of the rules and regulations in India, the government very often acts as a problem-creator rather than a facilitator. This is due to a complex bureaucracy, corruption and undoubtedly, the absence of ethical sense in various sectors. It is high time the Indian companies start reflecting upon their corporate practices and look beyond traditional community development and a simple focus on compliance. “..... *shareholders should ensure that the composition of Board of Directors is a balanced mix of independent directors and management appointees.*” (Sahu, 2009).

2. PAKISTAN

Pakistan draws ethics principles primarily from Islamic law because the Constitution mandates that all laws conform to Islam. Pakistan's legislature delegated the task of issuing a corporate governance code to the Securities and Exchange Commission of Pakistan (SECP), which enacted Pakistan's Code of Corporate Governance (the Code) in 2002. The SECP believes that the best way to promote the interests of all corporate stakeholders is to ensure that business is conducted in accordance with the highest prevailing ethical standards. The SECP's position on fiduciary duties is based on Anglo-American common law and, importantly, Islamic law, which shows the significance of Islam on business ethics for the corporate governance in Pakistan.

3. UK

UK incorporated companies listed on the UK Stock Exchange are subject to the Combined Code on Corporate Governance. The most recent (2003) version of the Code combines the Cadbury and Greenbury reports on corporate governance, the Turnbull Report on Internal Control (revised and republished as the Turnbull Guidance in 2005), the Smith Guidance on Audit Committees and elements of the Higgs Report. The Combined Code is, in 2006, subject to a review. The Financial Reporting Council (FRC) is the independent UK regulator responsible for the Combined Code.

4. USA

Corporate corruption scandals have increased drastically over the last few years throughout the United States. Anti-corruption policies and programmes mean very little without the foundation of an effective and robust compliance and ethics infrastructure. This is especially true when the organisation operates globally. Various conferences are held in US these days which help one to know how to develop and manage an integrated and global Anti-corruption, Ethics and Compliance programme.

5. CHINA

"China is widely perceived as having a problem in business ethics. One view holds that elements of Chinese culture tend to encourage unethical business decisions. Another perspective says that China has business ethics issues because its economy is in transition. The unclear rules of the game create opportunity for business ethics problems. The large amount of new wealth creates incentive to cut corners to get rich." (John Hulpke and Cubie Lau, (2008).

China is seen as having business ethics problems. However, good business ethics help a society as a whole, and some say that good ethics can be a source of competitive advantage for an organization. In the past fifty years, Chinese society has changed significantly and some traditional components of Chinese beliefs have been abandoned along the way. Following the path of the development of Chinese business culture, it is not hard to understand why China's corporate governance system is far from satisfactory.

6. JAPAN

Japan's newly elected Democratic Party is planning to introduce a new law for public companies, according to Reuters (Tokyo 2 September 2009). At least one third of their boards would need to be independent non-executive directors. Of course, this would do no more than bring Japanese board structures in line with those in many other countries, including China. But it would mean a major shift in opinion and practice for most Japanese listed companies. Independent non-executive directors, in the Western sense, have been unusual. Traditionally, investors have played only a minor role in corporate affairs..

7. FRANCE

Business Elites and Corporate Governance in France and the UK is a cross-national study of business elites and corporate governance in France and the UK. It examines corporate governance from a comparative standpoint and looks beneath the surface at the exercise of power and authority in two distinct national business systems. It explores key issues concerning business elites, their networks, recruitment and reproduction. It aims to shed light on the mechanisms that govern the stability and regeneration of business elites against the backdrop of an increasingly global economy.

8. RUSSIA

According to some researchers, corporate social responsibility in Russia is very limited. Few businesses take the idea seriously. Russia continues to fall behind minimum standards of corporate governance. Taxes, and sometimes salaries, go unpaid. Accounts are filed late. Corruption is rife. Another view says Russian corporate responsibility is flourishing. Pressured by the government, companies are re-establishing their Soviet-era roles as service providers to their communities.

9. CANADA

".....Like Mexico's, Canada's major corporations are led by a handful of controlling shareholders, but corruption is uncommon. New corporate governance guidelines are under debate, and the Ontario Securities Commission is wresting control from the Toronto Stock Exchange.." (Ryan). Business ethics in Canada have developed primarily in response to broader socio-political and socio-economic factors than in the US, and will probably continue to do so.

10. GREECE

In Greece, the issue of corporate governance was first raised in 1998, when the Athens Stock Exchange and the ASYK SA (Capital Market Development of Systems and Support) conducted a relevant study. In April 1999, the Capital Market Commission, expressing its interest in the establishment of efficient corporate governance practices, set up the Committee on Corporate Governance (CCG) in Greece. The CCG introduced in October 1999 a White Paper, titled: *"Principles of Corporate Governance in Greece: Recommendations for its Competitive Transformation"*.

"The speculative events in the Greek capital market during 1999 led the Capital Market Commission and the state to

take an active role, introducing rules, regulations and codes of conduct. All these measures were aiming at the protection of investors against market abuse, the improvement of the transparency of the market and the establishment of appropriate business ethics.”(Loukas Spanos, 2003).

11. TURKEY

The ethical climate in the Turkish business environment is at a critical stage, and the business community as a whole is troubled by ethical problems. According to a Research Study made by M. G. Serap (Atakan) Ekinl and S. Hande Tezölmez1, Department of Management, Bogazici University, 80815 Bebek, Istanbul, Turkey , the ethics score, the measure of ethical judgment, of Turkish managers differs significantly only with respect to gender and that female managers have higher ethics score than male managers. Other individual, managerial and organizational factors considered in this study do not have any significant effect on the ethical judgments of the managers.

12. SRILANKA

A revised corporate governance code has been published in Sri Lanka by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission. Although the Code relies heavily on the UK's Combined Code on Corporate Governance there are some noticeable differences in emphasis and wording. Both codes stress the important role performed by the chairman but the Sri Lankan code expresses this most succinctly in principle A.3 as follows: "*The Chairman's role in preserving good Corporate Governance is crucial*".

SUMMARY AND CONCLUSION

It is a globally accepted fact that there is an inevitable connectivity between business ethics and corporate governance. No organization can exist and function for long except on moral foundations. Without proper improvement being made in the areas of recruitment, selection, performance appraisal, performance management, compensation, and benefits, ethics cannot be ensured in any organization. In the complex business world today, the question of business ethics is increasingly gaining importance as managers and employees face numerous ethical dilemmas in their jobs. Personnel policies can help ensure ethical conduct within the organization which ultimately helps in the improvement of corporate governance.

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