Business Ethics For Micro Finance Institutions

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INTRODUCTION

Business ethics are a form of applied ethics that examine ethical principles and moral or ethical problems that arise in a business environment. Ethics are a set of values and principles that we strongly believe and follow. It is learning what is right or wrong, and then doing the right thing. The concept of business ethics has come to mean various things to various people, but generally, it's coming to know what is right or wrong at the workplace and doing what's right.

✠ In the increasingly conscience-focused market places of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. higher UK road tax for higher-emission vehicles).

✠ Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia, descriptive approaches are also taken.

✠ The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values.

THE BROAD AREAS OF BUSINESS ETHICS ARE

1. Managerial Mischief : It includes illegal, unethical, or questionable practices of individual managers or organizations, as well as the causes of such behaviors and remedies to eradicate them.
2. Moral Mazes : It includes the numerous ethical problems that managers must deal with on a daily basis, such as potential conflicts of interest, wrongful use of resources, mismanagement of contracts and agreements, etc.

IMPORTANCE

Now to answer the latter part of the question - Why are business ethics important?
The importance of business ethics has largely been undermined over the years. It provides numerous benefits such as:-

1. Attention to business ethics has substantially improved society.

2. Ethics programs help to maintain a moral course in turbulent times.

3. Ethics programs cultivate strong teamwork and productivity as they align employee behaviors with those top priority ethical values preferred by leaders of the organization.

4. Ethics programs support employee growth and meaning. Attention to ethics in the workplace helps employees face reality, both good and bad -- in the organization and themselves.

INDIAN ECONOMY & MFI

✠ Growth of the Indian economy has accelerated to 8% and efforts are on to further propel it to 10%. Undoubtedly, all the segments of the economy, viz. agriculture, industry and services have to improve their contribution to the economy.

✠ Growth of small and medium enterprises (SMEs) is a sine qua non for the growth of industry, exports and other segments of the economy. Furthermore, promotion of entrepreneurship is also vital for sustenance and upward movement of the current growth trajectory of the economy.

✠ The SME sector acts as a catalyst in upholding and encouraging the creation of the innovative spirit and entrepreneurship in the economy, thereby helping in laying the foundation for rapid industrial development. Moreover, the sector also serves the vital objectives of employment generation and balanced regional development.

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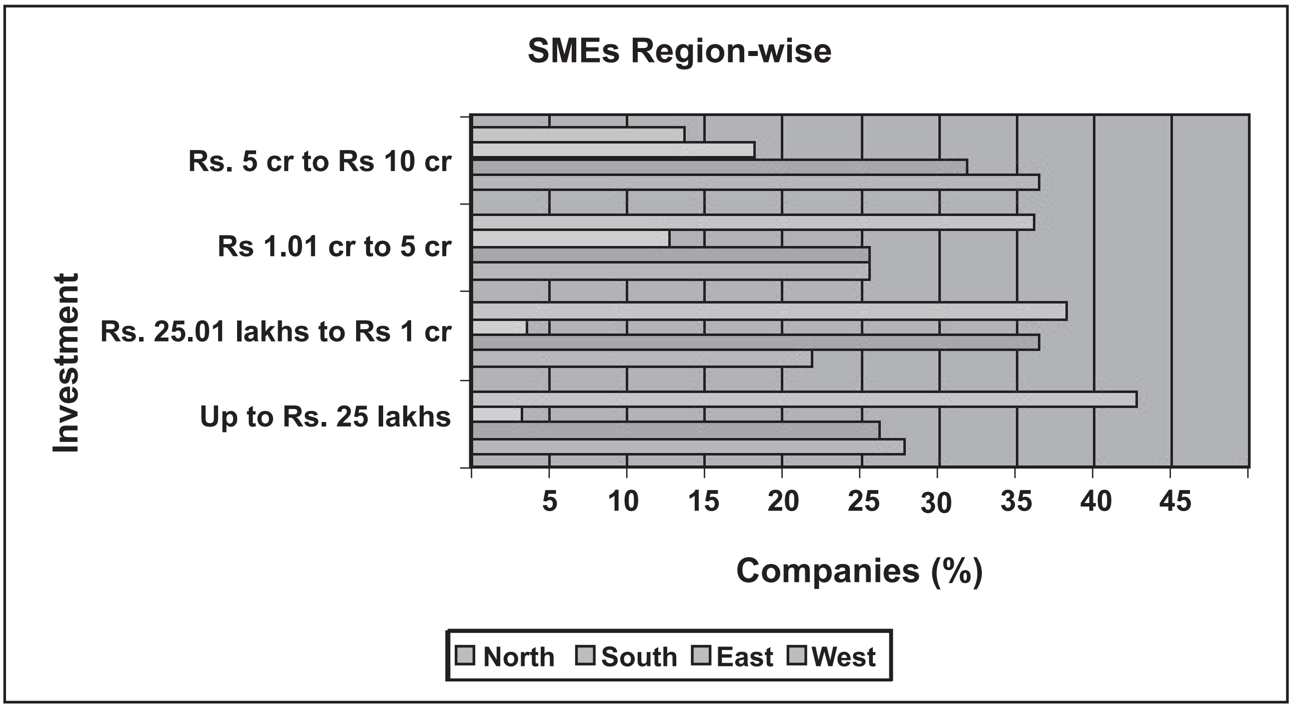
✠ Globalization and liberalization of the Indian economy have also brought a host of opportunities for the industrial sector- particularly the MFI segment. While MFIs have responded to competition satisfactorily, there is scope for increasing their export potential, domestic market share and developing them as serious players in the global value chain.

✠ The attention that small and medium enterprises are lately commanding from banks, institutions, industry and academicians, and has encouraged this study on the SME segment.

✠ The MFIs were relatively over-shadowed for long by other economic concerns. As a result, there has been a deficit of authentic information on this segment and has limited the estimation of value contributed by it to India's economy.

✠ The food processing segment is the third sector in the Emerging MFIs of India series, after auto components and textiles.

INVESTMENT WISE REGIONAL DISTRIBUTION OF MFIs



FUTURE PLANS OF INDIAN MFIs

Of the total 245 companies in the sample, 61% have envisaged strategies for future growth. The plans range from capacity expansion, modernization, diversification to new marketing initiatives and venturing into newer markets.
Out of the total companies with future plans for growth, 45% of the companies have plans for expanding their capacity in order to meet the growing demand. A substantial 29% of the companies have diversification plans into related or un-related fields.

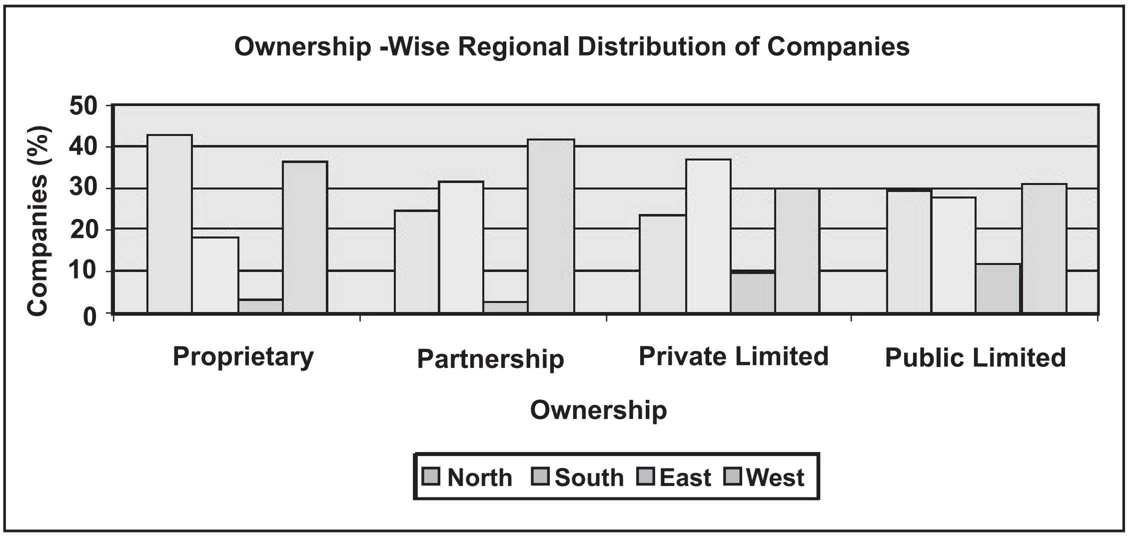
HINDRANCES TO GROWTH

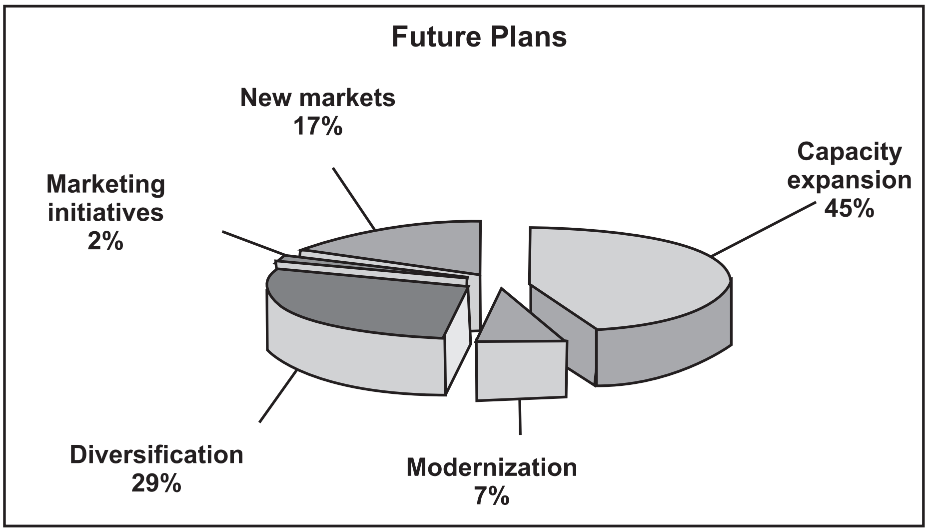
✠ Infrastructure and lack of institutional support were cited as the key hindrances to growth by the MFI.

✠ Nearly 52% of the companies in the sample responded to the query on hindrances to growth.

✠ Of these, over 80% of the responses alluded to lack of institutional support as an impediment.

✠ A large number of these companies were from the northern and southern belt. Infrastructure as a barrier was cited by 37% of the companies. The West-based companies were largely concerned with marketing issues.





CORRELATION OF BUSINESS ETHICS & MFIs

Few directors of small and medium sized enterprises (SMEs) will deny the importance of good, trusting relationships with customers, employees, suppliers and the community. The success of their company depends on it.
Also, due to requirements higher up, supply chains and smaller firms are increasingly asked about their social and environmental credentials during tendering processes with large corporations. MFI owners and managers also recognize the importance of trust and ethics in business when they are on the 'receiving end' of unethical business practices; for example, when suppliers deliberately do not meet agreed terms and conditions. Owners and managers can often encounter ethical challenges.

EXAMPLES INCLUDE

✠ Do I meet a deadline with my customer and ship out products even though I know that there is a possibility they might be faulty, or do I openly discuss my difficulties with the customer?
✠ How do I ensure that my employees do their work properly and do the right thing?
✠ How do I deal with my employees' desire to balance their work obligations with their personal ones?
✠ How do I respond when securing an important contract seems to require the payment of a kickback?

✠ Do I delay payment to suppliers and the Inland Revenue when my cash-flow is currently limited?
The desire to build trusting internal and external relationships, as well as growing pressures from a wider society should lead MFI owners and managers to consider to what extent ethical values and principles guide their business behaviour.

SOME BENEFITS OF MAKING ETHICAL VALUES EXPLICIT ARE
Increased employee loyalty, higher commitment and morale as well as lower staff turnover

✠ Attraction of 'high-quality' staff.

✠ Reputational benefits (customers and suppliers).

✠ More open and innovative culture.

✠ Decreased cost of borrowing and insurance.

✠ Generation of good-will in the communities in which the business operates.

RESPONSIBILITY FUNCTIONS OF BUSINESS ETHICS PROGRAM @ MFIs

Leading enterprises, government agencies, and NGOs have found that an effective business ethics program addresses functions at seven levels of responsibility:

✠ Overseeing the program at a high level (the responsible officer).

✠ Performing or coordinating the specific functions of the business ethics program (the business ethics officer).

✠ Advising the responsible officer and business ethics officer and representing the enterprise as a whole (the business ethics council).

✠ Advising the responsible officer, business ethics officer,employees and agents about specific professional ethics, compliance, and social responsibility issues, such as biomedical, engineering, or community issues (the professional ethics council).

✠ Linking various levels of the enterprise with a central ethics office (business conduct representatives).

✠ Performing related executive and department functions (the chief financial officer; legal counsel; human resources; internal audit; environment, health, and safety; government procurement; and investor relations).

✠ Abiding by standards and procedures and striving to meet reasonable stakeholder expectations (every employee and other agent of the enterprise).

BUSINESS ETHICS INFRASTRUCTURE & MFIs

The average MFIs may not have enough staff members to dedicate an employee or employees to each of the responsibility functions. For an MFI that has only one location, the function can be served by a high-level individual who has enough time to perform the duties -and is sufficiently detached from the issues raised- that he or she can be an effective channel for employees and agents seeking advice or reporting concerns. Often, for these reasons, owners and managers of MFIs will turn to trusted independent advisers.

TEN WAYS SMALL BUSINESS OWNERS CAN PREVENT AND DETECT FRAUD

1. Hire a CPA to examine the books.
2. Have a written code of ethics.
3. Set a good example.
4. Have reasonable expectations.
5. Treat employees well.
6. Restrict bank account access.
7. Perform regular bank reconciliations.
8. Adequately secure inventory and supplies.
9. Adequately pre screen employee applicants.

10. Give employees a way to report fraud.

ETHICAL VALUES IN MFIs

- ✠MFIs are characterized by informal understandings and shared expectations among the workforce of how business is done. Any values and ethical principles will usually be implicit rather than formally expressed through ethics policies, codes and programmes that are familiar in large companies.
- ✠ The ethics of a small organization are typically influenced by the owner manager or managing director. Through their very visible presence, their personal attitudes and behaviors will set the tone of the business and have the potential to signal to employees how seriously ethical behavior is to be taken in the organization. MFIs are not typically able to devote as many resources to building an ethical workplace culture as larger organizations.
- ✠However, there are advantages to having a somewhat more formal ethics policy in place.
- ✠Firstly, it reinforces and makes explicit, the values and principles that are part of the organizational culture, so allowing them to be communicated to stakeholders.
- ✠Secondly, a policy will provide guidance and support to employees on how they are expected to conduct their business.
- ✠A policy will provide a context and the vocabulary for employees to raise any concerns they have with their supervisors or the directors. It will form a framework for management and staff to decide what the "right thing to do" is.

DEVELOPING BUSINESS ETHICS @ MFIs

The following are the important procedural format to implement and develop ethical practices at MFIs:

1. Identify And Define Core Values Of The Business: An effective ethics policy will be based on a set of values. Values may be thought of as agreed standards of behavior, expressing beliefs about the 'good' and the 'right' in the context of the organization; they are commonly derived from wider cultural and societal value systems. Some commonly found values are :

Business Values May Include :

- ✠ Customer service
- ✠ Quality
- ✠ Innovation
- ✠ Reliability
- ✠ Efficiency
- ✠ Value for money

Ethical Values May Include:

- ✠ Integrity
- ✠ Honesty
- ✠ Openness
- ✠ Respect
- ✠ Fairness
- ✠ Responsibility

In MFIs, these values will inevitably be influenced by the personal and professional values and principles of the owner-managers. However, it is considered good practice to consult employees about this, asking them what they think the values of the organization are. Employee involvement can increase the effectiveness of an ethics policy; it is the first stage in embedding values in the culture.

2. Draw Up A Code Of Ethics :A code of ethics is the main tool for implementing an ethics policy. It translates core values into specific commitments and expected behaviors in relation to the organization's key stakeholder groups

(i.e. customers, employees, suppliers and contractors, providers of finance and community).
A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors. When drawing up a code, it is also helpful to ask employees about ethical issues that concern them and on which they would like guidance. The code may be titled "The way we work" or "Our values and principles".
Its purpose is two-fold:
a. To make a public statement
b. To provide guidance to staff
A code of ethics cannot cover every situation, but it should make clear the 'spirit' in which business should be done.

3. Embedding The Code

✠ The code needs to be communicated throughout the company. All employees should be made aware of the code, the commitments the organization has made and the ethical behaviors that are expected of them as members of the organization and how they can get support.

✠ It will be good practice if owner-managers themselves introduce the code to new employees and remind existing staff of the importance of responsible behaviour on a regular basis, e.g. in staff meetings. Reminder communications could include examples of 'right action', consequences of 'wrong' actions, and dilemmas.

✠ Employees should be encouraged to speak to their line managers or the directors if they are unsure about the 'right' response in specific situations or if they have concerns over certain decisions and behaviours.

✠ Appointing a designated 'ethics champion' should also be considered. This may be the board secretary or HR manager or, depending on the size and set-up of the business, a non-executive director or even a person outside the organization. Such a person may discuss ethical issues and concerns with the directors, be a contact if an employee wishes to raise concerns or seek guidance outside the line, and monitor the effectiveness of the ethics policy.

✠ Owners or senior managers need to be aware that their behavior sets an example to their employees.

EXTERNAL STANDARDS AND GUIDELINES

✠ External codes and standards will complement and strengthen the ethics policy and culture of an MFI.

✠ Informal and formal professional codes of practice may inform their business practices and greatly enhance the business's reputation.

✠ Some business sectors have launched initiatives that seek to target specific ethical issues endemic in that industry. For instance, in the construction sector, a range of business associations and professional institutions have-in collaboration with civil society organisations - launched an Anti-Corruption Forum to combat bribery and corruption.

✠ Finally, there is an array of external ethics standards and guidelines available to companies, which can help identify their ethical commitments, and against which they can measure their ethical performance and make themselves accountable.

✠ Most of these are primarily designed for large corporations, but some can be easily adjusted to fit the needs of smaller business organizations. An example is the Good Corporation Standard, which sets out a corporate responsibility framework using a stakeholder approach.

COMPOSURE OF ETHICAL MONITORING BODY AT MFIs

BUSINESS ETHICS OFFICER

Independent of high-level responsibility for the business ethics program, a number of specific business ethics staff functions must be accomplished for the program to be effective. It is critical that a specific individual or individuals be assigned responsibility for these functions. Responsibilities for reporting to the owners (or their representatives) is typically retained by the responsible officer. However, a best practice is for both the responsible officer and the business ethics officer to have access to the CEO and board.

ROLES AND RESPONSIBILITY OF THE BUSINESS ETHICS OFFICER

The business ethics officer is the staff officer responsible for the day-to-day operations of the business ethics program.

Two practitioners have identified the following 12 functions of a business ethics officer:

1. Coordinate development and implementation of the business ethics program.

2. Establish and chair a business ethics council representing all levels of the enterprise.

3. Develop and maintain standards of conduct and procedures, as well as related policies, which will guide employees and agents and will foster reasonable stakeholder expectations.

4. Establish internal reporting channels, including, but not limited to, a help line that employees and agents may use to seek advice and report concerns without fear of retribution.

5. Establish or coordinate monitoring controls and measures to ensure that correct processes are established and followed.

6. Implement or coordinate enterprise-wide communication and training programs to ensure that all employees, agents, and other stakeholders are educated on the standards, procedures, and reasonable stakeholder expectations.

7. Coordinate or conduct inquiries and investigations to ensure proper follow- up on reports and resolutions.

8. Delegate authority to conduct appropriate inquiries and investigations (for example, legal, human resources, internal audit) when necessary.

9. Monitor and evaluate the business ethics programs for periodic modifications when needed.

10. Maintain a working knowledge of relevant issues, laws, regulations, and emerging standards of ethics, compliance, and responsibility through periodicals, seminars, training programs, and peer contact, including membership in professional associations.

11. Respond appropriately when a violation of these standards is uncovered, including making a direct report to the board or external agency if a violation of law or regulation is involved.

12. Report quarterly to the appropriate board committees on the status of the business ethics program, report to the CEO or appropriate board committees whenever necessary, and report to stakeholders annually.

BUSINESS ETHICS COUNCIL

1. The business ethics council serves principally as an adviser on setting policy, resolving issues, and monitoring the business ethics program. In larger enterprises, it often consists of representatives of executive management, including finance, general counsel, human resources, internal audit, quality, and public affairs.

2. It is typically chaired by either the responsible officer or the business ethics officer. It is advisable that all levels of the enterprise be represented so that the council's advice fully reflects the enterprise as a whole. Wider participation may also contribute to greater employee acceptance of the program and its message.

3. A business ethics council should meet on a regular basis, perhaps monthly or quarterly. It raises issues of concern in the enterprise, reviews disposition of help-line requests for advice or reports of concerns, previews training materials, and recommends policy changes or program modifications.

4. It meets on call when there are urgent matters to address, such as unforeseen conduct issues or a compliance violation that may require disclosure to government agencies. If the business ethics officer is highly respected and has an extensive network of managers and specialists that he or she can turn to for advice, a business ethics council may not be especially valuable.

5. Also, the lack of a council tends to identify the business ethics program with one person, which may require restructuring the business ethics program when he or she leaves the post.

PROFESSIONAL ETHICS COUNCIL

The business ethics council is concerned with standards of conduct that affect the MFIs as a whole. In many enterprises, well-developed bodies of professional ethics standards guide day-to-day operations. For example, biomedical ethics guide health care providers, especially physicians and nurses.

Other examples include legal, engineering, accounting, and environmental ethics, but there are many others, including specific social responsibility issues.

In each of these areas, significant issues will arise that require the same sort of consultation and advice process that the business ethics council provides on more general issues.

1. To address these more specific issues, an MFI might establish a professional ethics council. For example, biomedical ethics is such a significant part of hospital operations that hospitals often have a separate biomedical ethics council, which reports directly to senior management on biomedical issues.

2. If an enterprise wants to contribute to the welfare of its community as a whole, beyond its essential function as a business, it might appoint a community relations committee. Such a committee might identify specific community needs not met by the government or civil society, coordinate with NGOs, and organize voluntary employee work projects.

3.It would usually coordinate closely with the public affairs function to further enhance the reputation of the enterprise.

BUSINESS CONDUCT REPRESENTATIVES

1. An MFI must also determine how best to engage its employees and agents in its business ethics program. If the enterprise is large or complex, local personnel can be appointed to serve as advisers to local managers, employees, and agents and as channels for communication back to a central business ethics office.

2. Business conduct representatives generally report directly to both the senior manager at the location and the business ethics officer. They advise managers and other employees on standards, policies, procedures, and the business ethics program as a whole. They facilitate the functions of responsible business conduct at the local unit, such as training; monitoring, auditing, and investigating; providing employee incentives and discipline; and evaluating the program. They are responsible for coordinating with other functions at the local level such as legal; environment, health, and safety; quality management; and human resources.

3. They must be able to give unbiased advice that will not interfere with the conduct of their primary duties. For this reason, they should not be appointed from the human resources, procurement, or legal units of the enterprise, which are often either the source of the issue or the unit responsible for resolving the issue.

INDIVIDUAL RESPONSIBILITY

1. To be a truly responsible business, the enterprise must articulate the responsibilities of all of its employees and agents in a positive, constructive manner.

2. For owners, managers, and supervisors, this effort may involve complete awareness of the business ethics program itself. Owners, managers, and supervisors must demonstrate commitment to the program in all that they say and do. They are responsible for maintaining an organizational climate in which pressures to violate standards are minimized and incentives to achieve enterprise goals and objectives, pursue the enterprise purpose, and meet reasonable stakeholder expectations are high.

3. Managers and supervisors may be required to certify regularly that they have no conflicts of interest and that they, and those they manage, are following the business ethics program.

4. For all employees and agents, their specific responsibilities under the business ethics program may require familiarizing themselves with the standards, certifying receipt of the code and compliance with code requirements, attending scheduled training, participating in feedback sessions and investigations, and seeking advice and reporting concerns.

5. They may also be charged with contributing to an organizational climate in which all employees can work together to achieve the enterprise's purposes.

CONCLUSION

MFIs account for 92% of the country's commercial establishments and 40% of the total production of the country. Providing MFIs- who are a vital part of the country's institutional and economic fabric - with the tools to conduct business ethically is critical .Furthermore, MFI that do business in accordance with high ethical standards contribute to a sound business environment (e.g.) business that promotes

✠ Fair competition and a level playing field,

✠ Private property rights,

✠ Contract enforcement and lower costs of entry for new firms which, in turn, promotes economic growth. High ethical standards and good governance of MFIs are an integral part of national, economic and social development.
A number of international donors recognize the development benefits of ethical conduct and good governance in MFIs. The value of a commitment to ethics by MFIs is also clear to multinational organizations who depend on the ethical conduct of their suppliers and distributors (and who have watched prosperous companies suffer serious reputational damages for the unethical conduct of their suppliers). In order to "make the case" to MFI to participate in the program, the following points should be emphasized:

✠ REPUTATION

A sound ethics program adds value by protecting and enhancing the enterprise's reputation. Reputation is important for strengthening business relations and earning clients' loyalty in any enterprise, and is especially important for MFIs because

i) They are usually involved in the production chains of large enterprises and their own sustainability may depend on maintaining positive relations with these clients;

ii) A good reputation can facilitate access to financing services; and

iii) A positive reputation reinforces capacity to export and be competitive in the context of globalization and international trade agreements.

✠ CORRUPTION RISKS PREVENTION

Ethics programs can educate MFIs about corruption and provide them with tools to conduct business honestly. As discussed previously, many MFIs engage in unethical (and illegal) practices to cut costs such as tax evasion, failure to comply with labor regulations and failure to register the enterprise. If detected, these enterprises incur crippling fines.

✠ FOSTERING TEAMWORK

MFI owners dedicate a substantial amount of time and energy to resolve conflict with or between their employees, and to motivate them to live the enterprise's mission. This work becomes easier when the relations among employees are based on ethical values supported by everyone in the enterprise.

✠ ORGANIZATIONAL STRUCTURE

Although flexible and designed to function without the comprehensive structures of large enterprises, program activities do help define business conduct and establish more efficient controls.

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