

## HOW BEING GOOD IS GOOD FOR BUSINESS?

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### ABSTRACT

Business and society have been coeval since time immemorial. Only the nature of relationship between the two has undergone change from profit-drenched motive to people motive. Business history all over the world is replete with such examples that ultimately determine whether the businesses conducted in an ethical or good manner survive and succeed and those conducted in an unethical manner flounder and fizzle out in due course of time. The reason is 'Satyamev Jayate' i.e., only the truth wins. It is against this background, the present paper makes an attempt to explain and exemplify how ethical conduct of business proves good for business itself.

### Introduction

Business and society have been coeval since time immemorial and also have been inter-dependant. This relationship between business and society is appreciated in *Rigveda* also : “*Corporates should work like a honeybee, which takes the nectar of a flower without the flower being losing its shape and fragrance and provides honey for the wellbeing of the society.*” It means that both have to work on a symbiosis manner for each one’s survival and success. The business history is replete with evidences to believe that business flourishes only where society thrives. On the contrary, business dies when society condemns and rejects it. No business can survive without societal approval and sanction. The inter-dependant nature of relationship between the business and the society is best illustrated by the management guru Peter Drucker (1954) by the example of a ship and sea. He states that the relationship between business and society is “like the relationship between a ship and the sea which engirds it and carries it, which threatens it with storm and shipwreck, which has to be crossed but which is yet alien and distant.” No doubt, business has been conducted primarily to earn profit and / or create wealth. However, there are reasons and evidences to believe that the mindless obsession with profit maximization at any cost carried to any extreme has led to spurt in sordid activities in business causing harm to both the

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business and society and ultimately leading business to flounder and fizzle out (Khandwalla 2004). Enrons Parmalats, Union Carbide, and World.com are to name a few representing examples of such business collapses. Business history is also replete with examples that only the businesses that are conducted through good or right practices enjoy societal sanction and survive and last for long. Johnson & Johnson, Maruti Limited, Reliance Industries Limited, and Tata Iron and Steel Company are such examples that indicate that being good in conducting business activities proves good for businesses also. Hence, there has been increasing concern for conducting business in a good or ethical manner. Though there has been a spurt in research activities on business ethics or ethics in business, not much research has so far been conducted on what actually makes business ethics and how being ethical or good is good for business also. The present chapter, therefore, makes a modest attempt to address these two issues in seriatim.

### **What Makes Business Ethics?**

We think that an excursion into the discussion on what makes 'business ethics' or a business ethical, must begin with a clear understanding of what is meant by business ethics. Only then can one proceed to profitably discuss what makes business ethics.

Ethics is rules and principles that define human conduct as right or wrong. Then, what is business ethics? 'Business ethics', like ethics being a philosophical subject, is defined differently by different philosophers and thinkers as it is evident from the following definitions.

According to Peter Pratley (1997), "Business ethics adapts the methods and purpose of normative ethics to the specific requirements of moral issues in business. It studies the specific moral demands that apply to this particular sphere of modern civilization." Manuel G. Velasquez (2002) has defined business ethics as "a specialized study of moral right or wrong. It concentrates on moral standards as they apply to business policies, institutions, and behaviour." For Elizebeth Vallance (1995), "Business ethics attempts to apply general moral principles to business activities in order to resolve, or at least clarify, the moral issues which typically arise in business."

What follows from the above definitions can be summed up as that business ethics is the form of applied ethics which applies moral judgements in the business spheres. It is the application of our understanding of what is good and right to that assortment of transactions, activities, and pursuits that we call business. Thus, business ethics means application of moral judgements to decide business matters as right or wrong and fair or unfair.

Like general ethics, business ethics is also equally normative ethics. Therefore, as a normative ethics, the existing business practices are judged on the basis of standards set in this regard, i.e., what ought to be done in a given situation. In this way, business has both the diagnostic and therapeutic aims of general normative ethics. It is diagnostic in the sense that it evaluates the moral behaviour in business environment by applying clearly defined moral standards. Also, it is therapeutic in the sense that it elaborates specific moral guidelines suitable for actual business. In reality, business mediates between normative demands and interests.

Ethics, for that matter business ethics, being a philosophic endeavour, there is no unanimity on what makes business ethics. Some people hold the view that business ethics is essentially obeying the laws and regulations. According to them, merely to obey the law is enough for business people to be ethical. For example, when an accountant was asked to prepare a business ethics report for the Board of Directors of 7-Eleven Stores, his report excluded allegations that a store manager was trying to bribe New York tax officials. When asked why the alleged bribery attempt was excluded from the report, he replied that he did not feel the incident was unethical because it was not illegal, implying that unethical and illegal are the same (Anonymous 1983). Bowie (1988) phrases this view as "*If it's legal, it's morally okay*".

Even the classical economists like Adam Smith (1776) and Milton Friedman (1962), the two votaries of the modern capitalism and market approach in decision making, opine that the only goal of business is profit maximization and that ethics and morality play no role in business conduct. According to them, business should not have any concern beyond obeying legal codes in achieving their goals, i.e., profit maximization. Milton Friedman (1962) boldly proclaimed: "*The business of business is business.*" He, of course, later relented to some extent and accepted that profit maximization should be attempted within a legal

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framework and subject to broad social ethical norms (Friedman 1970). Adam Smith, the “father” of modern economics, in his seminal work “*The Wealth of Nations*”, justified the pursuit of self-interest, i.e., profit of business in exchange on the grounds that by making trades for own advantage, the business promotes the interest of others. The justification for a free market capitalist system is, in part at least, that by pursuing profit, business firms promote the welfare of the whole society. But the commentators on Adam Smith’s above view observe that in his defense of free market in *The Wealth of Nations*, Smith was speaking about exchange, whereas economics also includes production and distribution which also play their roles in creating social welfare (Sen 1993).

There is one school of thought that holds the view that law and ethics govern two different realms. How? They view that law prevails in the public life, whereas ethics is a personal matter. The law is a clearly defined set of enforceable rules that applies to everyone, but ethics being a personal matter reflects how one chooses to lead one’s life. Therefore, it would be a mistake to apply ethical rules in business, just as it would be a mistake to apply the rules of poker to tennis (Boatright 2003: 16). The law represents a minimal level of expected conduct that everyone should observe. On the other hand, ethics is a higher but optional level of conduct. The view held is: *‘it’s nice to be ethical, but our conduct has to be legal’*.

Ethics is essentially a matter of concern of the inner intents of individual. Therefore, ethics in all cases is not simply obeying the law. Law, of course, can draw *Lakshman Rekha* for business ethics. In fact, law is the minimum of ethics. That is why one cannot necessarily claim to be ethical even when one is on the right side of the law. In fact, it is not a question of an act being legal or illegal but whether the act is good or evil. A legal act may not necessarily be a morally good act. For example, at the Nuremberg trials all the accused had committed acts that were legal but not morally good, or say, ethical (Mendona and Kanungo 1998). Ethics is higher and more than law. For example, insider trading, as in the recent Reliance case is still not treated as a serious legal offence in India calling stern legal action, but is extensively considered unethical (Sekhar 2002). Similarly, being a victim of AIDS is no crime by law, but would be considered as travesty in ethics, because these impinge on personal well being.

Some scholars like Sekhar (2002) look at the relationship between law and ethics from a '*holier than thou*' perspective. They give example to support their view : 'We give better specifications in our products than the ISI', 'We give better perquisites to our workers than prescribed in the Minimum Wages Act', 'We take back goods from the customer even if law is categorical that sales once made are final,' and so on. Similarly, Stevenson (1984) notes that the Jain traditions are chary of breaking the laws of the land; they could, however, do better than law. Thus, ethics has a wider circumference than law and, therefore, sometimes it serves as a source of law itself. As such, an ethical decision more often than not becomes legal as well. That is why we find many businessmen, even without actually knowing the law, remain well within it.

The reasons that lead people to hold the view that law is not enough to make ethics are varied, but three predominate (Paine 1994).

*First*, the law is not appropriate for regulating certain aspects of business activity. The reason is that not everything that is immoral is illegal. For example, ethical issues in business concern inter-personal relations at work or relations between competitors, but these would be difficult to regulate by law. Similarly, taking credit for someone else's work, making unreasonable demands on subordinates, and, unjustly reprimanding an employee are all ethically objectionable practices, but they are best left outside the law.

*Second*, the law itself is often unsettled. As such, whether some action is legal is to be decided by the courts. There are reasons and evidences to believe that, in the absence of law, the courts are often guided in decision making by moral considerations. Judges have some leeway or discretion in making decisions. Therefore, while exercising this discretion, judges do not necessarily substitute morality for law, but rather express a morality that is embodied in the law. As such instead of the motto: "*If it's legal, it's morally okay*," another motto is perhaps more accurate : "*If it's morally wrong, it's probably also illegal*." Where there is a doubt about what the law is, "the good faith," "the benefit of doubt", i.e., the court lexicon, morality becomes the good basis of how the court will decide.

*Third*, the law is often slow to develop. Christopher D. Stone (1975) points out that the law is primarily reactive, because it responds to the problems that the people in the business world deal with and even can anticipate long before

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they come to public notice. The legislative and judicial processes themselves take a long time, and meanwhile much damage can be made. This is true for both newly-emerging problems and long-recognized problems. One such example is that the racial and sexual discrimination was legal and widely practiced in business before the passage of the Civil Rights Act 1964. At the present time, the legislative protection for women against the gender or sex discrimination in different walks of lives is just becoming to develop. Then, the right action is that the persons or organizations should not wait until they are forced by law to act on the matters of growing concern. In the absence of law, it is ethics only that makes one act in a righteous manner.

That the law has been insufficient more often than not to make people act in a good, ethical or righteous manner is well indicated by unabatedly increasing sordid activities of people in different walks of life including business amidst a host of laws and regulations. It is seen that people extremely religious in their private life, while in their business, hardly take account of the human suffering caused by their wrong actions in business. The research and evidences indicate that it is only the ethics, i.e., the inner intents of intentions as good or noble along with rules and laws can make people act in a fair and right manner. Thus, nothing but moral or ethical conduct of people alone can resolve the problems in the society and add good to it. Then, obvious question arises is what makes one's (like businessman's) inner intents as good or ethical. One can list several ingredients that make one's inner intents of intentions as ethical or good or noble. For example, Sheth (2005) holds the view that one's truthfulness, honesty, recognition of the other's identity and dignity, concern for the other's wellbeing, commitment to work, professional integrity, conformity with standards of law and order and resolution of disputes in a peaceful and cooperative spirit make and shape his/her inner intents as good and/or noble. Nonetheless, the three ingredients are the major ones: *values, morality, and, integrity*. People in business with these three attributes or ingredients are more likely to make ethical decisions. To conclude, ultimately ethics, not the law, is the main guide to make business ethical.

#### **Being Good Becomes Good For Business Too**

Business being a social sub-system is social by nature. As such, business growth and fulfillment take place with, in, and through others (Steidlmeier 1992).

Therefore, the *raison d'être* of business organization, like other human organizations, is to support to some "good" and be in accord with the 'highest excellence'. Creating and supporting good for others is called, in Sanskrit, '*Propkaram*' and '*Propkaram*' is considered as the '*Param Dharam*', i.e., the super duty. The social psychologists call it 'altruism' and define it in two ways. *First*, it is defined as an attributed dispositional intent to help others, i.e., willingness to sacrifice one's welfare for the sake of another (Krebs 1982). *Second*, it is defined in terms of the manifest behaviour and its consequences without any reference to one's dispositional intentions. The first definition can be said to refer to altruism as an internal state, the second refers to it as external, i.e., behaviour with consequences. Because it is difficult to identify the help provider's dispositional intentions, researchers have preferred to define altruism as a form of overt behaviour with consequences. In simple words, altruism means to place the interest of others before that of one's self.

Altruism is highly regarded in all cultures as the epitome of sound moral principles because morally good acts are based on moral laws that incorporate fundamental values such as truth, goodness, beauty, courage, and justice. Though the principle of moral altruism benefits business in several forms, the two predominate. *One*, the recipients of the benefits out of business act have good feelings and wishes for business. Good feelings and wishes fructify. *Two*, others' good feelings and wishes create clients and/or customers for the business. Customer is the life of the business. A business can exist only by creating and keeping customers (Leavitt 1986).

Then, the question is how to behave in an altruistic manner. In the Indian society like others, developing a keen social conscience, performing selfless acts, placing the interest of others before that of one's self are behaviours / conducts viewed as admirable and noble moral conducts which reflect mankind's highest moral ideals. So to say, one's altruistic behaviour is a moral norm that responds to his / her deeply felt need that, at the same time, also contributes to the social wellbeing. The researchers report that the altruistic behaviour is founded on the practice of the four cardinal virtues, namely, prudence, fortitude, justice, and temperance (Mendona and Kanungo 1998). *Prudence* means appropriate and sound judgement made in the light of a given environment. In other words, prudence means avoiding undesired consequences of circumspect. *Fortitude*

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implies courage required to act positively and surmount the odds and obstacles to do what is right and just. *Justice* is to give others what is due to them. *Temperance* means one’s abstinence from self-indulgence to what is genuine and justified. In other words, temperance involves distinguishing what is reasonable and necessary from what is self-indulgent.

The regular, or say, habitual practice of these virtues of prudence, fortitude, justice, and temperance results in moral strength. The practice of prudence, for example, enables the businessmen to consider in his or her decision all related and relevant aspects of a given problem or situation. Such an assessment of situation facilitates proactive behaviour. Fortitude enables businessmen to acquire the courage required to take great risks for the cause that is noble and worthwhile. Added to this is that fortitude enables the businessmen to preserve against great odds. Here, Leavitt’s view seems worth citing: “Determined people try to make it happen because they believe in it, not because the odds are on their side.” The practice of temperance checks the businessmen from swinging in their behaviour. In other words, temperance facilitates the entrepreneurs to maintain the emotional balance which helps regulate one’s feelings and emotions tempted by changing situations.

Now, how a business gets benefited in a lockstep manner from its ethical conduct is illustrated diagrammatically in the following Figure 1.

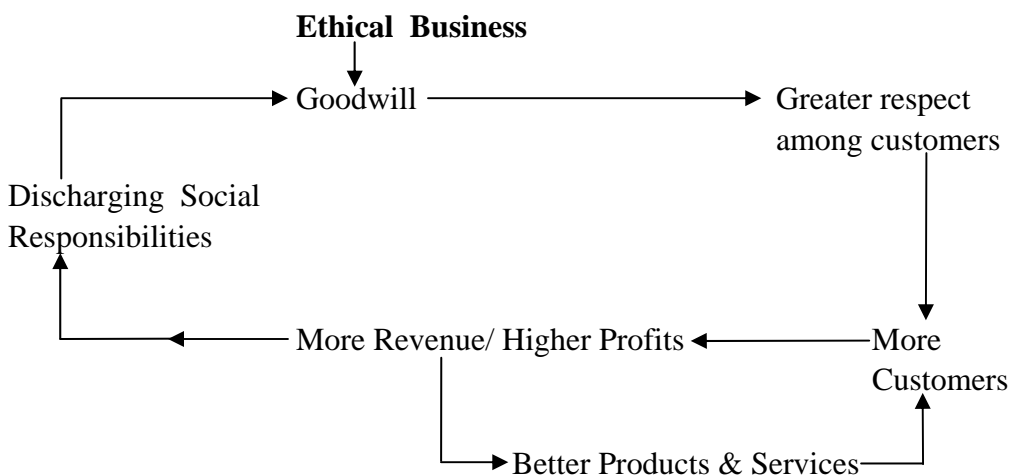


Figure 1: Ethics Benefits Business in a Lockstep Manner with Compound Rate



Here, we are producing the two caselets that exemplify how being good, i.e., having good ideas / intents become good for oneself too, be it an individual or a business organization.

### Caselet 1

Having visited different locations throughout the day, the exhausted and deadly tired couple reached a hotel late in the evening to stay at the night. When they enquired for room, the person present there said that all rooms are booked. Sorry, no room is available. It was very dark night and was raining very heavily outside. Other hotels were at some distant places and it was also difficult to get transport at that time due to both night and rain. The signs of anxiety were clearly visible on the tired faces of the couple. The hotel person, whose education was only up to 9<sup>th</sup> standard, realized their problem as to where they would go in such a rainy night. It was also not sure whether they will get accommodation in other hotels. He decided to help them.

An idea prevailed that let them take rest that night in his room allotted to him in the hotel. He told the couple to sit on the sofa and wait for some time. He called one of the room servants and ordered him to clean his room and keep it in order. The room servant came back after some time and reported that the room is ready. The person told the couple that he could arrange one room for their night rest. Though the room was not as good as other rooms in the hotel, but he was sure that they would feel quite comfortable in that room. He told the couple: "Please you go inside the room. I am sending two cups of hot tea; it will give you comfortable sleep." The person passed the night on the sofa itself. What an excellent example of altruistic behaviour. Having passed their night comfortably, the couple thanked the hotel person and left for their next destination.

After a few years, the couple constructed a magnificent multi-storied hotel in the New York city. Advertisement was given for different hotel staff except the Hotel Manager. When asked why there was no advertisement for the post of hotel manager, the couple replied that they had already got a very-very good manager for their hotel. He was the same person with an educational qualification up to 9<sup>th</sup> standard who offered his own room in his hotel to the couple in that rainy night. What an excellent example of "*Holier than thou.*"

(Source: Asha Ram Ji: *Aastha Television Channel*, 10 Dec., 2005, Saturday).

## Caselet 2

One summer evening I (David J. Schwartz) was travelling by a car through Cincinnati. It was time for a gas-up. I stopped at an ordinary looking but surprisingly busy service station. Four minutes later I knew why this particular service station was so popular. After filling my car with gasoline, checking under the hood, and cleaning the outside of my windshield, the attendant walked around to my side of the car and said, "Pardon me, Sir. It's been a dusty day. Let me clean the inside of your windshield." Quickly and efficiently he did a thorough job of cleaning the inside of my windshield, something not one service-station attendant in a hundred ever does.

This little special service did more than improve my night visibility (and it improved it a lot); it made me remember this station. It so happened that I made eight trips through Cincinnati during the next three months. Each time, of course, I stopped at this station. And each time I got more service than I expected to get. Interesting too was the fact that each time I stopped (once it was 4.00 A.M.) there were other automobiles filling up also. In all, I probably purchased about 100 gallons of gasoline from this station.

The first time I stopped the attendant could have thought to himself, "This guy is from out of the state. Odds are 20 to one that he'll never be back. Why do more than give him the routine treatment? He's only a one-time customer."

But the attendants in that station didn't think that way. They put service first and that's why they were busy pumping gasoline while other stations looked almost deserted. If the gasoline was any better than a dozen other brands I didn't notice it. And the price was competitive.

The difference was service, i.e., an altruistic idea. And it was obvious that service was paying off in profits to the gasoline station.

(Source: David J. Schwartz : *The Magic of Thinking Big*, Simon & Schuster UK Ltd., London, 1979. pp. 214-215.)

To conclude, ethics and for that matter business ethics, is one's good / noble idea or intent that serves like a seed. Just like a seed, ethics also fructifies in a lockstep manner as follows:

*Sow an idea, reap an action;  
Sow an action, reap a habit;  
Sow a habit, reap a character; and  
Sow a character, reap a destiny.*

### **Concluding Remarks**

Business and society are inter-dependent on each other for their survival and growth. Hence, both need to work in a symbiosis manner. Business ethics being the good inner intents of businessmen is beyond the circumference of law and rules. Being ethical of business by adding to the good of the society earns goodwill and sanction of the society which, in turn, creates customers / market for the business. Customer is life-blood for business. More good or ethical a business becomes in its conduct, more the social sanction and respect the business enjoys.

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