

# Business Ethics vs. Corporate Governance- A Challenging Issue before Corporates

## Abstract

Ethics is nothing but standards governing the usual conduct of the members of the management of the Company. Business ethics means conducting all aspects of business & achieving commercial success in ways as respect to people, communities and the natural environment issues concerning the social responsibility of corporate need to be considered against the back ground of Governance.

**Keywords:** Corporate Social Responsibility, Liberalization, Privatization & Globalization.

### Introduction

Ethics is the discipline which deals with values relating to human conduct. It refers to contemporary standards or set of values that govern the actions and behavior of individuals. These provide a basis for determining what is right or wrong, good or bad in term of a given situation.

Business Ethics is not a few concept, but since the Enron and world Com scandals of 2002, more attention has been paid to ethics in business (or the lack there of) than ever before. Business ethics now means conducting all aspects of business and dealing with all stakeholders (employee, partners, clients shareholders, suppliers, the communities, and natural environments in which business operate), in an ethical manner and includes respect for all and responsibility for current and Past activities as well as futures impacts. A variety of terms is used –sometimes interchangeably to talk about Business Ethics: Corporate Social Responsibility (CSR), Corporate Citizenship, Corporate Accountability and Sustainability.

We can also say that Business Ethics means addressing the legal, ethical commercial and other expectations society has for business and making decisions that fairly balance the claims of all key stakeholders.

### Aim of the Study

To study the justification behind corporate social responsibility in business operations to deliver greatest benefits to the corporate and its stakeholders.

### Features of Ethics

On analyzing the above, the following features can be extracted:

1. It is involved not only in business but all human activities.
2. Ethics is broader than morals in the sense that while morals refer to any generally accepted customs of conduct and right living in a society, i.e. moral indicate what people do. While ethics represent what people should do.
3. It contains principles of personal and professional conduct.
4. Existing norms and judgments may contain valuable insight but Ethics sets out to criticize and test them in term of ultimate norms.
5. It is not coextensive with law enshrines many ethical judgment of a society
6. Ethics does not rest on feelings of approval or disapproval but in the careful examination of the reality around us.



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**What is Corporate Social Responsibility (CSR)**

The issues that represent a company's corporate social responsibility (CSR) vary by business, by size, by sector and even by geographic region. In its broadest categories, CSR typically includes issues related to business ethics, community investment environment governance, human rights marketplace and workplace.

Corporate social responsibility, when addressed comprehensively, can deliver the greatest benefits to a company and its stakeholders when integrated with business strategy and operations.

The justification behind corporate social responsibility is that business operates within the society and earns profits by taking inputs from the society and then selling its outputs to the society itself. Therefore, just like a citizen, corporations also like corporate. Citizens have to reciprocate to the society for what it receives from the society. This implies that both business and society are interdependent. Both survive only because of their cooperation with each other. Issues concerning the social responsibility of corporation need to be considered against the background Corporate Governance. As corporate governance is a voluntary (now statutory) ethical code of business of companies and is concerned with the morals, ethics, values, parameters of conduct & behavior of the company and its management and also stipulates rules for composition of governance team and defines relationship primarily between those governing and those on whose behalf Governance is being carried out, namely the stakeholders.

**Governance & Management**

By and large, the terms Governance & management are used interchangeably though conceptual difference exists between two. The management runs the enterprise whereas governance ensures it is being run in the right direction. In other words the management is task oriented & concerns itself with execution of tasks to achieve predetermined goals and objectives.

However the governance is strategy oriented and encompasses framing the policy and ensuring disclosure and transparency. The focus under management is internal to control, direct and monitor the activities of management personnel and executives and to make them accountable for proper implementation of pre-determined policies.

On the other hand, the focus under governance is external. It involves accountability of promoters and directors to the outside world, namely, the stakeholders. Though the concepts are distinctive, there is the common thread, which establishes irrefutable inter relation between the two- 'better governance leads to better management'.

**What is the Corporate Governance**

Corporate Governance is a synonym for sound management transparency and disclosure, Corporate Governance thus seeks to establish a system whereby the directors are entrusted with the responsibilities & duties in relation to the direction of corporate affairs. It is concerned with the morals ethics, values, parameters of conduct and behavior of the company and its management

Corporate governance provides the structure and the use of the structure depends on whom the shareholders elect to the board and how effectively they make their views on community affairs and performance known to the board.

It is important to mention here that Corporate Governance is not the subject that is limited to fixing the accountability of corporate sector alone. There is need to evolve a voluntary code of conduct not only for the corporate world, but also for enforcement and regulatory agencies as well. Thus, the overall scenario calls for setting up of behavioral standards supported and protected by structural system, under the full glare of public accountability.

**Core of Corporate Governance**

The key aspects of good Corporate Governance include "Transparency of corporate structures and operations" Accountability of managers and the Board to shareholder-corporate responsibility towards stakeholders. While corporate governance essentially lays down the framework for creating long-term trust between companies and the external providers of capital, it would be wrong to think that the importance of corporate governance less solely in better access of finance companies. The world are realizing that better Governance adds considerable value to their operational performance:

1. It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience and a host of new ideas.
2. It rationalizes the management and monitoring of risk that a firm faces globally.
3. It limits the liability of top management and directors, by carefully articulating the decision making process.
4. It assures the integrity of financial reports and independent sound management and control system.
5. It has long term reputational effects among key stakeholders, both internally and externally.

**Conclusion**

To conclude corporate governance is not merely about preparing reports and forming various committees to comply with listing agreement. Basically, Corporate Governance is about ethics in business. Ethics cannot be legislated. It is about

transparency, openness and fair play in all aspects of business operations.

SEBI can at the most ensure that formalities of corporate governance are complied with. It has to come through conviction and self-discipline of top management. Companies should adopt Corporate Governance in letter and spirit as well. Thus, what is needed a small corpus of legally mandated rules, but tresses by a much larger body of self-regulation and voluntary compliance.

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