Business Ethics

Unit 3: Ethics in Management

Ethical Issues in Accounting and Finance

Ethics in accounting happens to be a sub-domain of applied professional ethics and deals with the study of ethical values and judgments as they apply to the field of accountancy.

Some of the **unethical practices in accounting and finance** may be discussed as under:

- Earnings management
- Window dressing
- Under-reporting income
- Creative accounting
- Insider trading
- Campaign financing
- Financial frauds
- Acceptance of gifts and favours by auditors

Resolution of Ethical issues in Accounting and Finance:

- Implementation of GAAP
- Following the provisions of accounting standards
- Internal control and audit
- Strengthening the role of the finance managers

Work Place Ethics- Value and Ethics

Values determine 'what is wrong and what is right' while ethics focuses on 'doing what is right and avoiding what is wrong'. A well-acknowledged value system and an ethical code of conduct ensures the smooth functioning of the business. Thus, 'ethics' and 'values' together pave the foundation for sustainability in business.

Types of Value System:

- On the basis of level of objectives sought
- Terminal value systems
- Instrumental value systems
- On the basis of individual acceptance and practice
- Personal value systems
- Moral value systems
- Spiritual value systems
- On the basis of collective acceptance and practice
- Dominant value systems
- Cultural value systems
- Social value systems

Value-Based Conflicts:

Some difference in prioritizing the value system might sometimes lead to the origination of some form of conflict between the individuals or organizations, and hence, these conflicts are referred to as **value-based conflicts.**

Features of value-based conflicts:-

- Frequent and consequential
- Misinterpretation
- Distrust
- Strained and hostile communications
- Negative stereotyping
- Non-negotiability

Types of value-based conflicts:-

- Intra-personal value conflicts
- Inter-personal value conflicts
- Individual-organizational value conflicts

Resolution of value-based conflicts:-

- Encouraging dialogue between disputants
- Altering the communication
- Reframing the conflict
- Clarifying individual priorities
- Understanding immediate needs
- Making win-win compromises

Ethics and Corporate Governance

Corporate governance refers to a set of systems and practices to ensure that the business activities of an enterprise are being managed in a manner that ensures accountability, transparency and fairness in all its transactions, and fulfil stakeholder aspirations as well as societal expectations.

Features of Corporate governance:

- Control of organizational activities
- Transparency and disclosure
- Protection of shareholders' rights
- Accountability
- Pillared on ethical principles
- Universal application
- Systematic process
- Efficient management

Objectives of Corporate governance

- To facilitate objectives decision-making
- To align stakeholder and corporate goals
- To maintain the balance of the board
- To adopt transparent business practices
- To promote stakeholder interest
- To provide timely information
- To monitor corporate functioning effectively
- To maintain adequate control
- To develop an efficient organizational culture
- Achieves corporate goals
- Creates social responsibility
- Improve social cohesion

Significance of Corporate governance

- **To companies**
- Improving access to capital
- Improving performance
- Developing a strong system of internal control
- Reducing investment risk
- Developing capital market
- **To shareholders**
- Incentivizes the board
- Offers investment security
- Ensures transparency
- Increase trust
- **To the Economy**
- Premium for integrity and transparency
- Enhances corporate value
- Minimizes waste, risk, corruption and mismanagement
- Promote sustainability

Limitation of Corporate governance

- Lack of proper structure
- Inadequate government support
- Increased operational costs
- Illegal insider trading
- Misleading financial statements
- Privacy and data protection issues
- Governance of CSR activities

Committee reports on Corporate governance:

A Corporate governance report is a written document prepared by an organization or a govt. authorized body, constituted specially to lay down the framework for creating long-term trust between companies and external providers of capital.

Corporate governance reports and acts outside India

- The Cadbury Report, UK (1995)
- The Greenbury Report, UK (1995)
- The Hampel Report, UK (1998) etc.

Committee reports on Corporate governance in India

- CII Voluntary Code of Corporate governance (1998)
- Narayana Murthy Committee (2002)
- Naresh Chandra Committee (2003) etc.

Corporate Governance in India

Features:

- Proactive role of SEBI in developing world-class governance systems
- Rise in adoption of Corporate governance mechanisms
- Voluntary improvements
- Trickle-down impact on smaller companies
- Growing vigilance on stock exchanges

Role of Ethics in Corporate governance :

- Act with honesty and integrity
- Provide comprehensive information
- Ensure legal compliance
- Maintain responsibility and care
- Protect confidentiality

Principles of Ethical Corporate governance

There are several fundamental principles and responsibilities that the top management and board members should follow in order to ensure appropriate and ethical corporate governance:

- Standards
- Independence
- Selection
- Executive sessions
- Committees
- Leadership
- Board culture
- Responsibility