

**THE ANALYTICAL STUDY OF THE APPLICATION OF THE ETHICAL THEORIES IN THE BUSINESS GOVERNANCE**

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**ABSTRACT**

*Increasing orientation of the business behaviour towards adoption of ethical business practices in the general course of business has made it vital to understand the theories of ethics for the application in business dealings. This study analyses the various theories of ethics and their application in the best practices of the business governance.*

**INTRODUCTION**

Business ethics and corporate governance of an organization go hand in hand. In fact, an organization that follows ethical practices in all its activities will, in all probability, follow best corporate governance practices as well.

Corporate governance is meant to run companies ethically in a manner such that all stakeholders including creditors, distributors, customers, employees, the society at large, governments and even competitors are dealt with in a fair manner. Good corporate governance should look at all stakeholders and not just the shareholders alone. Corporate governance is not something which regulators have to impose on a management, it should come from within. A business organization has to compete for a share in the global market on its own internal strength, in particular on the strength of its human resource, and on the goodwill of its other stakeholders. While its State-of-the-art technologies and high level managerial competencies could be of help in meeting the quality, cost, volume, speed and breakeven requirements of the highly competitive global market, it is the value-based management and ethics that the organization has to use in its governance. This would enable the organization to establish productive relationship with its internal customers and lasting business relationship with its external customers.

**ETHICAL THEORIES**

Ethical theories arise in different contexts, so they address different problems. They also represent some ethical principles. There are many ethical theories but in general there are two major kinds of ethical theories: Deontological and Teleological ethical theories. Broadly speaking Deontological theories emphasize on consequences, whereas Deontological theories are interested more in duty.

**DEONTOLOGICAL THEORIES – KANTIAN ETHICS**

Deontological theories of ethics are different from utilitarian theories of ethics. According to Deontological theories, though the consequences of an act are good, some acts are always wrong. In deontological theories actions are judged as ethical or unethical based on duty or intentions of an actor. The most important defender of deontological ethics is Immanuel Kant who forwards his moral theory in 1788.

Kant's ethical theory includes duty without regard to human happiness. His moral theory is based on his view of the human being as having the unique capacity for rationality. No other animal possesses such a propensity for reasoned thought and action, and it is exactly this ability which obliges us to act according to the moral law / duty.

Kant's moral theory emphasises acting in accordance with and for the sake of duty. Kant believed that inclinations, emotions and consequences should play no role in moral action. This means that motivation for action must be based on obligation. Morality should provide us with a framework of rational principles (rules) that guide and restrict action, independent of personal intentions and desires.

It is worth mentioning that another divergence between the theories of utility and deontology is the way in which they are constructed: utilitarianism is concerned with actively maximising the good while deontology is more negatively focused on avoiding the morally impermissible (or on the constraints of action). The moral worth of an action is determined by the will. The human will is the only thing in the world that can be considered good without qualification, according to Kant. Good will is exercised by acting according to moral duty/law. The moral consists of a set of moral maxims which are categorical in nature. According to Kant, every action has a maxim. Maxim means rule of principle. He tries to provide a universal law that is true under any circumstances for everyone. It can be concluded that deontological ethics based on

Kantian ethics emphasises a universal morality. The principle of deontological ethics can be summed up in the phrase, "treat others as you would be treated".

Kant distinguishes two kinds of imperatives; hypothetical and categorical imperatives. Hypothetical imperatives are conditional, whereas categorical imperatives are unconditional and they must be obeyed under any conditions. Hence, according to Kantian ethics is an action passes the test of categorical imperative, the action is ethical. It can be claimed that categorical imperative rules out some certain practices, such as theft, fraud, coercion and so on in business life. If Kantian ethics can be applied in business life, it provides universal place in business world.

### **TELEOLOGICAL THEORIES**

Teleology is derived from the Greek word 'telos' meaning ends or purposes. This theory holds that ends or consequences of an act determine whether the act is good or bad. Rightness of actions is determined solely by their good consequences. Teleological approach is also known as consequential ethics. Businessmen commonly think in terms of purposeful actions as in, for example, management by objectives.

Teleological analysis of business ethics leads to the consideration of the full range of stakeholders in any business decision, including the management, the staff, the customers, the shareholders, the country, humanity and environment.

### **UTILITARIAN APPROACH**

Utilitarianism is an ethics of welfare. Business guided by utilitarian approach focuses on behaviours and their results, not on the means of

such actions. It can be described by the phrase, "the greatest good for the greatest number." The utilitarian approach prescribes ethical standards for managers in the areas of organizational goals, i. e., maximisation of profits; and having efficiency which denotes optimum utilization of scarce resource. Utilitarianism prescribes that the moral worth of an action is solely determined by its contribution to overall utility, that is, its contribution to the happiness and satisfaction of the greatest member. For example, one may be tempted to steal from a rich wastrel to give to a starving family. Hence, this approach is also referred as consequential approach. Utilitarianism is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they impose on the society. The policy which produces the greatest net benefit on lowest net costs is considered right.

The best way to analyse any decision including a business decision is by doing a cost benefit analysis. Several government agencies, legal theorists and moralists advocate utilitarianism.

Jeremy Bentham is considered as the founder of traditional utilitarianism. He propagates on objective basis for making value judgments that would provide common acceptable norm for determining social policy and social legislation.

The utilitarian principle states, "an action is right from ethical point of view if and only if they seem total of utilities produced by that act are greater than the sum total of utilities produced by any other act that can be performed at that point of time by any person". This approach gives precedence to good over right.

There is some limitations utilitarian approach. It is impossible to measure utility of different actions on a common scale. How can utility of one action be compared to that of the other? At times benefits and cost of an action cannot be even predicted accurately. For example, it is not possible to predict advantages of building housing for the underprivileged. Moreover, non-economic goods, such as life, equality, health, beauty and justice cannot be traded for economic goods. But utilitarianism assumes that all goods are tradable for some quantity of another good.

Both Utilitarianism and Kantian ethics have important implications in business world. Therefore, both of them can be applied in business ethics. However, both have some negative points. Some are of the view that utilitarian ethics is more applicable to business ethics than Kantian ethics, because the aim of any business is to gain profit/benefit. The fundamental feature of utilitarianism is to maximize utility.

## **VIRTUE THEORY**

Virtue theory of ethics is a very old concept existing since the time of Aristotle (384BC), and there are a variety of theories that fall under the category of virtue theory. It is, firstly, important to understand what is meant by virtue – it is a slightly old – fashioned term. Whereas the other normative theories attempt to answer the question of ‘the right action’ (or ethical behaviour), virtue theory is more concerned with answering the question of how to live a good life or how to be a good person. Virtue theory aims to offer an account of the characteristics one must have to be considered virtuous.

## **THE EMERGENCE OF MODERN VIRTUE THEORY**

Virtue theory went out of favour with the advent of Kantianism and Utilitarianism. However, it re-emerged in 1958 with the publication of paper entitled “Modern Moral Philosophy” by Elizabeth.

According to Aristotle, “role of ethics is to enable us to lead a successful and good life”. This in Aristotle’s view is possible only for virtuous people. In his words “virtue is a character trait that manifests itself in habitual action”.

For example, honesty does not imply telling the truth once but has to be the trait of a person who tells the truth as general practice. Thus, we can define virtue as a trait of character that is essential for leading a successful life. Aristotle considers pride and shame to be virtues on the grounds that we should be proud of our accomplishments and ashamed of our failings. Virtues should contribute to the idea of a good life. They are not merely means to happiness but are constituents of it. The virtues of successful living apply to business as well. But everyday life virtues cannot be applied to business unconditionally. Any manager while looking at employee welfare cannot always avoid layoff. Certain amount of concealment is justified and acceptable in business negotiations. Therefore, applying virtue ethics to business would require determining the end at which business activity aims. Hence, honesty in business is not necessarily the same as honesty in other spheres of life. Whether any trait is a virtue in business is to be determined by the purpose of business and by the extent to which that trait contributes to that purpose.

## **JUSTICE THEORY**

Justice approach is also known as fairness approach. Greek philosophers have contributed

to the idea that all equals should be treated equally. Justice does not depend on consequences; it depends on the principle of equality.

The contemporary American Philosopher John Rawl’s objection to utilitarianism is that it does not give adequate attention to the way in which utility is distributed among different individuals. As an alternative to the utilitarian idea of society with highest welfare, Rawls proposes a society that recognizes its members as free and equal person who attempt to advance their own interests and come into conflict with others pursuing their self interests.

The key to a well-ordered society is the creation of institutions that enable individuals with conflicting ends to interact in mutually beneficial ways. The focus here is on social justice. Rawls promotes “Play It Safe”. He argues that a rational person should choose the alternative in which the worst possible outcome is still better than the worst possible outcome of any other alternative.

## **THEORY OF EGOISM**

Egoism is derived from the Latin word ‘ego’ meaning ‘I’. The theory of egoism holds that the good is based on the pursuit of self-interest. This model takes into account harms, benefits and rights for a person’s own welfare. Under this model an action is morally correct if it increases benefits for the individual in a way that does not intentionally hurt others, and if these benefits are believed to counterbalance any unintentional harms that ensue. For example, a company provides scholarships for education to needy students with a condition that the beneficiary is required to compulsorily work for the company for a period of 5 years.

Although, the company is providing scholarship benefits to the needy students, ultimately it is in the company’s self interest.

## **THEORY OF RELATIVISM**

Theory of Relativism promotes the idea that some elements or aspects of experience or culture are relative to, i.e. dependent on, other elements or aspects. It holds that there are no absolute truths in ethics and that what is morally right or wrong varies from person to person or from society to society. The term often refers to truth relativism, which is the doctrine that there is no absolute truth, i.e., that truth is always relative to some particular frame of reference, such as a society or a culture. For example, killing animals for sport (like bull fighting) could be right in one culture and wrong in another.

## CONCLUSION

In making ethics work in an organization it is important that there is synergy in vision statement, mission statement, core values, general business principles and the code of ethics. A commitment by corporate management to follow an ethical code of conduct confers a variety of benefits. An effective ethics programme requires continual reinforcement of strong values. Organisations are challenged with the task to make their employees live and imbibe their ethical codes and values. To ensure a right ethical climate, a right combination of spirit and structure is required. Corporate Ethics is much needed to stress the importance of sustainability, social development, stakeholders and consumers satisfaction. It is an orientation to provide a valuable service instead of displaying more orientation for profits. Ethics, point out what is good and what is bad and also what is right or wrong. It brings to the notice of the business community the importance of honesty, sincerity and fairness which makes them alert and socially conscious. It reconciles conflicting interest of various sections of the society such as workers, shareholders, consumers, distributors, suppliers, competitors and government and thus, expedites a better relation between business and the society.

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