Volume-4, Issue-1, February-2014, ISSN No.: 2250-0758
International Journal of Engineering and Management Research
Available at: www.ijemr.net
Page Number: 213-215

Role of Business Ethics and Corporate Governance in Business Success

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ABSTRACT

The present paper aims to justify the role of Corporate Governance and Business Ethics in the success of organisations. Corporate Governance and Business Ethics has gained a lot of importance and momentum the world over. *Business Ethics* and profit go together in the long-run, for the sustenance of organisations. If a company wants to grow and survive, it has to discharge its obligations to the society. So corporate have to pave the way for a stronger ethical foundations. *Corporate governance* system is to simultaneously improve corporate performance and accountability as a means of attracting financial and human resources on the best possible terms and of preventing corporate failure. In short Corporate Governance is about promoting corporate fairness, transparency and accountability. With the growing strength of consumer.

I. INTRODUCTION

Movements and rising levels of awareness among stakeholders, corporations are realizing that stakeholders and consumers are no longer indifferent to unethical practices like financial irregularities, taxevasion, poor quality products and services, kick backs, non- compliance with environmental issues, and hazardous working conditions. Many Indian companies too have importance recognized the importance of integrity, transparency and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains. Today investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. They regard corporate governance as a control mechanism that ensures the optimum use of the human, physical and financial resources of an enterprise. Companies have now begun to integrate ethic into their corporate cultures and concentrate on putting appropriate corporate governance and explain how they can be applied in various business situation. With the growing strength of consumer movements and rising levels of awareness among stakeholders, corporations are realizing that stakeholders and consumers are no longer indifferent to unethical practices like financial irregularities, tax-evasion, poor quality products and services, kick backs, noncompliance with environmental issues, and hazardous working conditions. Many Indian companies too have recognized the importance of integrity, transparency and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains. Today, investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. They regard corporate government as a control mechanism that ensures the optimum use of the human, physical and financial resources of an enterprise.

II. BUSINESS ETHICS

Business ethics is a kind of applied ethics. It is the application of moral or ethical norms to business. Ethics is a set of principles or standards of human conduct that govern the behaviour of individuals or organization. Ethics can be defined as the discipline dealing with moral duties and obligation, and explanation what is good or not good for others and for us. Ethics is the study of moral decisions that are made by us in the course of performance of our duties. it also deals with the moral choices that are made in relationship with others. Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximise profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules-articulated and implicit are developed to guide the businesses to earn profits without harming individuals or society as a whole.

III. SIGNIFICANCE OF BUSINESS ETHICS

The importance of business ethics to an organization has been discussed from differing viewpoints. Some managers consider ethics programs in their organizations to be very expensive activities that are only societally rewarding. Examples from the business community, however, suggest that companies viewed as ethical by the companies' stakeholders (i.e.,customers, employees, suppliers, and public) do enjoy several competitive advantages. These advantages include higher levels of efficiency in operations, higher levels of commitment and loyalty from employees, higher levels of perceived product quality, higher levels of customer loyalty and retention, and better financial performance (Ferrell 2004). The link between ethics and profitability has been studied for several years. A study summarized 52 research projects examining the correlation between ethics and profits (Donaldson 2003). The results were encouraging for those supporting a positive linkage between the two variables. Of the 52 studies examined, 33 studies indicated a positive correlation between corporate ethics programs and profitability, 14 studies reported no effect or were inconclusive, and five indicated a negative relationship.

IV. BETTER FINANCIAL PERFORMANCE

More and more companies recognize the link between business ethics and financial performance. Companies displaying a clear commitment to ethical conduct consistently outperform companies that do not display ethical conduct.

V. ATTRACTING AND RETAINING TALENT

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to talking care of its employees being equally dedicated in taking care of the organization. The ethical climate matters to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of co employees.

VI. INVESTOR LOYALTY

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits.

VII. CUSTOMER SATISFACTION

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases or orders and enduring relationship of mutual respect are essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its beliefs in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration.

VIII. CORPORATE GOVERNANCE

Corporate governance is the process whereby people in the power direct, less and monitor corporations, and thereby create, modify or destroy the structures and systems under which they operate. The concept of corporate governance primarily things on complete transparency, integrity and accountability of the management. According to the Kumar Manglam Birla Committee , the fundamental objective of corporate governance is " the enhancement of long-term shareholder value , while , at the same time, protecting the interests of other stakeholders". Corporate Governance is a way of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors . It is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability . Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company. Corporate Governance consists of procedures and processes according to which an organisation is directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation such as the board, managers, shareholders and other stakeholders and lays down the rules and procedures for decision-making. Corporate Governance is about promoting corporate fairness, transparency and accountability. In simple terms Corporate Governance can be defined as a set of laws, rules, regulations, systems, principles, process by which a company is governed.

IX. SIGNIFICANCE OF CORPORATE GOVERNANCE

Corporate citizenship — a commitment to ethical behavior in business strategy, operations and culture — has been on the periphery of corporate governance and board leadership, linked mainly to corporate reputation. However, in today's globalized and interconnected world, investors, creditors and other stakeholders have come to recognize that environmental, social, and governance responsibilities of a company are integral to its performance and long-term sustainability. Today, these concerns help determine profits. For companies to operate successfully and sustain growth, boards must incorporate these new dimensions into their core decision making processes. The global financial crisis has heightened the need for corporate boards of directors to provide well-informed strategic direction and engaged oversight that stretches beyond short-term financial performance. Doing so prepares companies to more comprehensively address risks, by anticipating potentially adverse impacts on people and the environment and managing tangible and reputational risks. It can also generate wealth by creating shareholder value through an increase in business opportunities and broader access to markets. A new vision of business is emerging — one where a set of core values, encompassing human rights, environmental protection and anti-corruption measures, guide the board's oversight, relationship with management, and accountability to shareowners. Good Corporate Governance is key to Growing Profits and Reputation. It represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations. A well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national, and global levels. In recent years, corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Corporate Governance is the only royal road to the portal of corporate success and there is no short cut to achieve the same. Best corporate governance practices will enable business firm to Increase efficiency of their activities and minimize risks;

- Get an easier access to capital markets and decrease the cost of capital;
- Increase growth rate;
- Attract strategic investors;
- Improve the standards of lending;
- Protect the rights of minority shareholder and other counterparts;
- Strengthen their reputation and raise the level of investors and clients' trust.

X. GENERAL OBJECTIVE OF THE STUDY

The main aim of the study is to determine that business ethics and corporate governance play a key role in business success. In current business environment a firm attain its goals efficiently by the practice of these terms.

XI. RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports.

XII. CONCLUSION

Corporate Governance and Business ethics is the need of today's business. Business ethics is vital in the contemporary business environment..Over the past decade, we have witnessed numerous corporate governance and ethics scandals, from accounting irregularities, to rogue stock traders costing investors billions of dollars, to allegations of bribery and illicit corporate payments to foreign governments. But the most devastating example of all was the lack of adequate governance and oversight by many financial organizations—including rating agencies and regulators—that led to the 2008 financial crisis. Clearly, a company's governance and ethical business practices affect not only its reputation, brand, employees, and bottom line; they can impact an entire industry, as well as investors, governments, and consumers. The term "sustainable success" is used intentionally, because business owners should focus on a lot more than short-term success. Anyone can achieve short-term success. Businesses may achieve some success by using unethical practices, but it's usually cut short when these unscrupulous methods catch up with them. Eventually, these businesses will lose their staff and customers. Larger companies may take longer to fail, but inevitably they must conform to a code of ethics or die. On the whole, a healthy and sustainable business must center on ethical business practices.. A wide variety of issues will face you as a business owner, but acting responsibly and for the good of your customers will lead you in the right direction. Risk is always a part of business but ethical business practices give you a competitive edge. Consistently doing the right thing will come out in your reputation, and that will lead more quality people to you and ultimate leads good business performance, which result in business success. Finally it is recommended organization that wants to improve its value or productivity, need to adopt business ethics and corporate governance practices in their organizations culture.

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