**ETHICS IN BUSINESS**

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 Every individual in this world wants to lead an ideal and luxurious life, where he tries to find out the norms, ideals and standards of the particular society and this can be achieved through three ideals of human life, i.e. truth, beauty and goodness. They refer to three aspects of our experiences- ‘thinking’; ‘feeling’ and ‘willing’. These all refer to the Ethics. Ethics is a set of moral principles, which guide the code of conduct and behaviour of a human being in his life and in society. It is a person’s own positive attitude and desirable behaviour and it differs from one another among individuals. The concept of ethics comes from the Greek word, “Ethos” that means both an individual’s character and a community’s culture. Generally it is believed that business ethics involves adhering to legal, professional, regulatory and company standards, keeping promises and commitments and abiding by general principles like truth, fairness, honesty and respect. The Institute of Global Ethics defines ethics as ‘obedience to the unenforceable’.

 Some of the scandals in the business world had their origin in little regard being shown to morality. The scandals convince that maxims such as “business is business: or principles like ‘caveat emptor’ (let the buyer beware) fall far short of public expectation. Businesses are under pressure to define their standards and codes of practice.

 The interest in business ethics has increased by recent trend towards Total Quality Management. TQM has two consequences for business ethics. First, it means that the consumer’s interests cannot be ignored. Second, management should define procedures and codify them for the introduction of code practice. The codification of procedures involves duties which impart a value judgment.

Business is an organ of society and it operates in a socio-economic environment. Every business depends on the society for the needed inputs life money, men and skills. A business also should strive to enhance local community service and also facilitate better living conditions for its employers. By training members of staff, wherever possible, anyone in an organization can lead to the employees who feel empowered for working harder as well as make good decisions. Having concerned of well-being of employees may lead to the healthier and thus happier workforce. This should be ensured by carrying out a comprehensive introspection of every decision made in relation to profitability as well as long term value and social responsibility. A business can only justify its existence by fulfilling its obligation to the society.

It has become a routine for many businesses to indulge in serving their community by either supporting local charities or offering sponsorship to the local people, which in turn ensures better living conditions for the local people. Many ways to achieve this include education, as well as sports and environment. Such ethical actions usually bare fruits in the long term as they serve in enhancement of the brand of the business, which ultimately will bring about profitability over the long term. You need to have little patience and wait, unless you get success for your actions.

While business ethics certainly play an important role in the business environment, it is possible for governments and individuals to demand too much social responsibility from companies. While companies should not abuse or misuse natural and economic resources, companies cannot pay for all the needs or wants of individuals. Some governments, individuals, or special interest groups can focus on business ethics and social responsibility and try to force companies into paying more money to improve society than the company can afford. This can result in lower business profits and the inability to pay for future, more reasonable and responsible social items.

To mention a notable instance, the Council of Fair Business Practices (CFBP) was established in 1966 by several leading private sector industrialists in Western India. **It adopted the following code of fair business practices:**

1. To charge only fair and reasonable prices and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.

02. To take every possible step to ensure that the agents or dealers . . . do not charge prices higher than fixed.

03. In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding or profiteering.

04. Not to produce or trade in spurious goods of standards lower than specified.

05. Not to adulterate goods supplied.

06. Not to publish misleading advertisements.

07. To invoice goods exported or imported at their correct prices.

08. To maintain accuracy in weights and measures of goods offered for sale. 09. Not to deal knowingly in smuggled goods.

10. Providing after-sales service where necessary or possible.

11. Honouring the fundamental rights of the consumers – Right of Safety, Right to Choose, Right to Information and Right to be Heard.

 12. Discharging social responsibilities and the responsibility to protect the environment and nature’s infrastructure.

13. Ensuring that the product-warranty is offered in simple, unambiguous and concise language, highlighting the rights of the consumer under it.

It is evident that the above recommendations constitute a primary-level, self-regulating charter for enlightened citizenship amongst business entities.

**The Punjab, Haryana and Delhi Chamber of Commerce have also formulated a “Code of Ethics”** (The Indian Journal of Public Administration, July–September 1995, p. 638). Without going into specifics, this Code is intellectually deeper in content. It says:

1. Business must maintain the highest standards of behaviour . . . (for) the benefit of industry, employees, customers, shareholders, and society.
2. Goods and services must conform to the commitment promised to customers. Business must be realistic and truthful in stating claims.
3. Customers must be given best possible service and treated with respect and fairness.
4. Business must understand and respect the needs, concerns, and welfare of the community and society. It should use knowledge and experience for upgrade of quality of life. All business endeavors must combine the qualities of private excellence for public good.
5. The best way of promoting high standards of business practices is through self-regulation. The Code has been designed as an instrument of self-regulation to serve as a voluntary guideline towards better quality of life and higher standards of business practice.

The Advertising Standards Council of India expects, among other things, that there will be (Balachandra, 1996, p. 83):

(a) No offence to generally accepted norms of public decency;

(b) Truthfulness and honesty in claims and representation; and

(c) No indiscriminate advertising of products which are hazardous to society or individuals.

**Ethics in Business: India 2010**

The present business environment in India is characterised by four important socio-economical and political parameters. India has

1. A functioning democracy, with independent judiciary and a free press

2. A free market, globalised economy with an active private sector

3. Ease of entry and exit for businesses

4. A large number of NGOs -voluntary non-government organisations for social causes -are active.

Though India needs to make several improvements in each of these parameters to become a top class nation, the situation today is much better than the era before 1991-1995. This is evidenced by the high rate of growth of GDP in the range of 8.0 to 9.0 percent for the past several years. Given this business environment, all businesses -production, trade, and services - need to survive and grow in fiercely competitive globalised markets. Can any business really afford to be unethical?

Let us examine the behaviour of any business with respect to each stakeholder that supports its existence and growth.

Customers-A grocer who cheats by giving home delivery of less than billed weight of the items will soon find that he has to close his business. The same logic holds good for any business giving less value for its customer's money. Unethical behaviour with customers is a sure route to bankruptcy.

 Employees-Pay less to employees compared to other similar occupations, bring in nepotism, be unfair in promotion practices, be callous in looking after the hygiene, safety and personal needs of employees and discover that your business can neither recruit good persons not retain them.

**Unethical practices hurt in the short, the medium as well as the long term!**

Vendors-Treating the suppliers (raw materials to equipment) in an arbitrary manner, engaging in nepotism, seeking underhand commission etc invariably hurt. These result in lowered average quality, more defectives or higher prices. These hurt the profitability of the business in the medium term, if not immediately, and make survival difficult.

 Banks-Those who provide finances for capital expenses and for the working capital has to be sure that the management is worthy of their trust. The banks need to have faith not only in the technical capability of the management, but also need to have an assurance that the financial dealings of the business are proper. Even a small slip on the wrong side of ethics makes this trust disappear overnight! No business can survive when deprived of the needed funding.

Shareholders-Since the 'share' holders themselves manage the micro, small and medium enterprises, no conflict of interest exists between the two. But in public limited companies and in the cooperative societies, the small shareholders from the public/interest group can get a less than fair return on their investment. The top management can take an unduly large share of profits for themselves, show less profits, and make money 'on the side' for themselves at the cost of the organisation.

Such unethical practices make survival precarious and the scope for raising capital through enlarging the equity disappears.

Society-The public pressure on the business is increasing: the business is not only asked not to harm the environment but also expected to accept some social responsibility. Autonomous bodies like SEBI and the government strengthen this demand through codes of conduct and laws. Public Interest Litigations ensure that the collusion between the polluters and the pollution controllers is reduced. The large scale businesses are accepting and acting on their Corporate Social Responsibility. A large part of the funding to the NGOs of all kinds comes from the charitable donations/support from the small and medium scale businesses.

We thus see that every business in the competitive markets of today and tomorrow is, in fact, behaving ethically with all its stakeholders simply because it needs to survive and grow. Unethical practices with stakeholders lead invariably to the extinction of the business, sooner or later. Therefore, the statement (made in the beginning of this article) that most businesses behave ethically most of the times is indeed valid in India today.

But then, why do most people feel that the Indian businesses are mostly unethical?

**Practicing Ethics in Business**

In the 21st century India, all businesses can afford to pay all due taxes and avoid corrupt practices while still making good profits needed for survival and growth. This is a fact that has to be understood clearly by all. They have a large number of good examples of successful and ethical businesses in India to emulate; and their number is increasing due to the changed expectations of multinational corporations from their Indian vendors and partners. Only a firm resolve by the top management can make it possible for a business organisation to behave ethically in its interface with the government. The top alone can decide not to evade taxes and simultaneously find ethically right ways of making the business grow.

What can businesses do right away so as not to succumb to corrupt practices by the public servants? Analysis of India data by Transparency International show that businesses can manage to get their due rights without being compelled to use the three main routes of corruption: namely, speed money, nuisance value and underhand commission. The TI data brings out that the most corrupt areas in India are the police and the legal system. Even in these, a demand for bribe is made only about 40-60 % of times; and only about half of these are actually paid. This is very bad by international standard of near zero demand for bribes, but tells us that the assumptions of everyone is corrupt' and 'one must pay' to get each due service are quite wrong.

Individuals and businesses can manage to get their due rights without bribing if they opt for so doing. A substantial number of small, medium and large businesses in India avoid such corrupt practices today by simply adhering to the rules and regulations correctly. Thereby they make themselves non-vulnerable to undue pressures from government functionaries.

Resorting to higher authorities when a person at the desk level seeks gratification, produces desired results most of the times. (Even a corrupt boss has to maintain a clean image!) Once regulations are properly read, understood and followed, the need to escape legal punishment does not arise. However, 'not breaking laws' needs strong ethical conviction at the top management level. The more the violations of this kind are caught and punished; the better will be the compliance. Top bosses have realised that their prestige in the society and the goodwill for their business are dependent on their adhering to ethical standards.

Use of information technology has made it possible to bring in great transparency in systems and has eliminated corruption at many levels. India is marching internally towards better democracy, improved governance, fewer unduly restrictive laws and simplified tax regime. Externally, India is getting increasingly integrated with the businesses and institutions from the advanced countries that are far ahead in ethical behaviour in business.

The external as well as the internal pressure for businesses to behave ethically also in their interface with the government are increasing. Many more of the younger generation entrepreneurs are willing to adhere to ethical standards. Given all these trends, we hope to see a substantial reduction in tax evasion and in the use of corrupt practices by business.

The management students as well as the young managers of today have to take these trends into account and build their careers by following the right path-the path of right.

**Ethical Decision Making**

The ethical decision making and behaviour of individuals in the organization are influenced by various factors which can be classified into three major headings viz.,

a) Intrinsic variables,

b) Extrinsic variables and

c) Moral issue related variables (Sunil Kumar Maheswari and M P Ganesh, 2006).

Ethical decision making process can be viewed as a system influenced by several components as given under:

1. Ethical issues (ethical dimension in a given problem or opportunity),
2. Principle(s) guiding ethical decision making,
3. Managerial concerns in an organization,
4. Environmental factors like culture, legal frameworks etc., and
5. Personal characteristics of decision maker (Suja S. Nair, 2009)

**Principles Guiding Ethical Decision Making**

Ethical issues involve dilemmas and managers require some sort of guidance in resolving them. Many theoretical approaches to guide ethical decisions and behavior have been evolved. The theories of business ethics which explain approaches to ethical decision making fall into two groups, one based on traits another based on methods of reasoning.

**Summary of Major Ethical Systems**

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| **Theory** | **Guiding question** | **Nature of the Ethical Belief** | **Principles** |
| **Eternal Law** | Is the decision based on natural human duties and rights of decision maker? | Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanistphilosophers. | Golden rule |
| **Hedonism/egoism** | Does a given decision give maximum benefit to self ororganization? | Moral standards are self-serving. Maximum benefit to self or organization. | Hedonist principle, Might equal rights principle, Organizationinterest’s principle: |
| **Utilitarian Theory** | Does a given decision result in greater benefits than damages for society as a whole, not just for ourorganization as part of that society? | Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people. | Means-end principle, Utilitarian principle |
| **Universalist Theory** | Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances? | Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances. | Professional standards principle |
| **Distributive Justice** | Will the decision lead to social cooperation? | Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotesindividual self-respect,which is essential for social cooperation. | Distributive justice principle |
| **Personal Liberty** | Will the decision increase ordecrease the liberty of others to act? Is the decision protecting the rights of others? | Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for socialproductivity. | Disclosure principle Principle of individual rights |

**Source**: La Rue Tone Hosmer, “The Ethics of Management” Universal Book Stall, New Delhi, 1987, Pp.106.

**Managerial Concerns Related to Ethics in Business**

In respect of organizations, three managerial approaches have been identified. They are briefly outlined here.

1. **The Stockholder Theory** holds that managers are agents of the stockholders, and their only ethical responsibility is to increase the profits of the business without violating the law or engaging in fraudulent practices (legal and economic approach).
2. **The Social Contract Theory** states that companies have ethical responsibilities to all members of society, which allow corporations to exist based on a social contract. What to do? The first condition of the contract requires companies to enhance the economic satisfaction of consumers and employees. They must do that without polluting the environment or depleting natural resources, misusing political power, or subjecting their employees to dehumanizing working conditions. What not to do? The second condition requires companies to avoid fraudulent practices, show respect for their employees as human beings, and avoid practices, which systematically worsens the position of any group in society. The theory, proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view on ethics is based on the integration of two “contracts”; the general social contract that allows businesses to operate and defines the acceptable ground rules, and a more specific contract among members of community that addresses acceptable ways of behavior. For instance, in deciding what wage to pay to workers in a new factory in CPCL, Chennai would base the decision on existing wage levels in the community (Social approach).
3. **The Stakeholder Theory** maintains that managers have an ethical responsibility to manage a firm for the benefit of all of its stakeholders, which are all individuals and groups that have a stake in or claim on a company. Sometimes the term is broadened to include all groups who can affect or be affected by the corporation, such as competitors, government agencies, special interest groups, and the media. Balancing the claims of conflicting stakeholders is obviously not an easy task for managers. It requires balancing political, legal, economic, technological and social factors (Integrated approach).

**Role of Ethics in Banking Sector**

**“Some turn every quality or art into a means of getting wealth; this they conceive to be the end, and to the promotion of end they think all things must contribute”** said by: **ARISTOTLE**, Politics.

It is bound to say that banking would be impossible without ethics. It is placing our assets in the hands of the others, most of the times with unknown people which requires immense trust. Unknown people includes an untrustworthy banker, finds few takers for his or her services. Banking scandals shock us precisely because they involve people and institutions that we should be able to trust.

Innumerable number of organizations in India has cheated many highly ethical people who trusted them and their companies. Hard earned has been put by many people in cash to seek their better living in the post retirement stage. The company starting have booted money by cheating the public and had themselves without address and no action has been taken on them, neither by the concerned authorities nor by the Government. Even if caught, no stringent actions have been taken on them. This is more predominant in India.

Ethical concern in banks are quietly significant because the bear on people financial well-being. Ethical misconduct as everyone knows, maybe by individuals acting alone or by banking institutions has the potential to rob people of their life savings. As huge money is involving in banking operations, there must be welldeveloped and effective safeguards along in place to ensure personal and organizational ethics. Through the law governs much banking activity, strong emphasis must be placed on the integrity of the bank professionals and on ethical leadership in our banking institutions (C.S.V. Murthy, 2006).

The nature of the banking industry is such that it is vulnerable to nefarious intensions. Hence it becomes more imperative to study ‘ethics in banking’. Integrity, honesty and responsibilities are the prerequisites for key banking personnel. Bank managers are the custodians of safeguarding the trust entrusted by the customers and the Government institutions to follow adherence and compliance to morality (Jelena Bozovic, 2007).

Banking is an industry that is meant for safeguarding the customers’ money. The complexities of handling customers’ money and the intricacies of investing the same have often been a major bone of contention for bankers. Since globalization, it has become very difficult for banks to assess the integrity of customers’ banking operations. Similarly, it has become difficult for the customers to know the destinations of their money. As custodians of customers’ wealth, it becomes imperative for banks to maintain the confidentiality of the customers.

Trust, transparency and responsibility should form the basis for a value system in banking. Transcendence to a transparent corporate culture can facilitate in solving ethical issues.

**Frauds in Commercial Banks, NBFCs, Urban Cooperative Banks, and Financial Institutions**

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| **No. of Frauds Cases Reported by RBI Regulated Entities**(No. of cases in absolute terms and amount involved in Rs. Crore) |
| **Category** | **No. of Cases** | **Amount Involved** |
| Commercial Banks | 169190 | 29910.12 |
| NBFCs | 935 | 154.78 |
| UCBs | 6345 | 1057.03 |
| FIs | 77 | 279-08 |
| Total | 176547 | 31401.01 |

**Source:** Inaugural address by Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

**Frauds by the Banking Sector**

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| **Year-wise no. and Amount of Fraud Cases in the Banking Sector** (No. of cases in absolute terms and amount involved in Rs. Crore) |
| **Year** | **No. of Cases** | **Total Amount** |
| 2009-10 | 24791 | 2037.81 |
| 2010-11 | 19827 | 3832.08 |
| 2011-12 | 14735 | 4491.54 |
| 2012-13 | 13293 | 8646.00 |
| Total frauds reported as of March 2013 | 169190 | 29910.12 |

**Source:**  Inaugural address by Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

**Frauds by Different Bank groups**

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| **Year-wise no. and Amount of Fraud Cases in the Banking Sector** (No. of cases in absolute terms and amount involved in Rs. Crore) |
| **Bank Group** | **No. of Cases** | **% Total Cases** | **Amount Involved** | **% to Total Amount** |
| Nationalized Banks including SBI Group | 29653 | 17.53 | 24828.01 | 83.01 |
| Old Pvt. Sector Banks | 2271  | 1.34  | 1707.71  | 5.71  |
| New Pvt. Sector Banks | 91060  | 53.82  | 2140.48  | 7.16  |
| Sub Total (Private Banks) | 93331  | 55.16  | 3848.19  | 12.87  |
| Foreign Banks | 46206  | 27.31  | 1233.92  | 4.12  |
| **Total** | 169190  | 100  | 29910.12  | 100  |

**Source:** Inaugural address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26th, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

**Positive Response to Ethics**

Some Indian organizations including banks are now trying to spread the message that they are ethical. In India, business educators refer to Vedic values, Gita prescriptions and stories of Panchatantra. Over the last ten years, since the Management Centre for Human Values (MCHV) came up as a formal outfit within the IIM-Calcutta, more than 5000 managers have been covered from about 50 organizations. Of them, TELCO, Godrej & Boyce, IPCL, IOC, Bharat Electronics, Hindustan Aeronautics, Indian Farmer Fertilizers Co-operatives and the State Bank of India, have stayed with these programs for as long as three to five years at a time.(S K Chakraborty, 2002). Azim Premji, while addressing the TISS HR seminar in 2005 said that in his journey from a tiny business of Rs. 5 Crore to Wipro’s net worth today touching some Rs. 3500 Crore, everything in Wipro **‘but for values and integrity’**, has undergone a drastic change. He cautioned the emerging breed of entrepreneurs and business managers to desist from temptations of shortcuts and windfall gains.

**State Bank of India**

State Bank of India is India’s largest commercial bank in terms of assets, deposits, profits, branches, number of customers and employees, enjoying the continuing faith of millions of customers across the social spectrum. SBI follows the values as given below:

1. We will always be honest, transparent and ethical.
2. We will respect our customers and fellow associates.
3. We will be knowledge driven.
4. We will learn and we will share our learning.
5. We will never take the easy way out.
6. We will do everything we can to contribute to the community we work in.
7. We will nurture pride in India.

**HDFC Bank**

HDFC Bank with a network of 3400 branches, 11250 ATMs in more than 2100 cities, is a most valued bank among Indian Banks. And also it is sole Indian firm among world’s most ethical companies. The criteria for being listed are leading ethics and compliance programs. HDFC is India’s largest mortgage lender and offers a wide array of financial investment advisory services. HDFC is very diligent in executing its responsibility for the impact of its activities on the environment, consumers, employees, communities and stake holders. They also integrate their business activities with social responsibilities.

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