



BUSINESS SCAMS: THE QUESTION OF PHILOSOPHICAL ETHICS

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ABSTRACT

Ethics is the set of moral principle that governs the sense of right or wrong, good or bad, justice or injustice of an individual. Ethics is relevant in all aspects of human life. Ethics synonymous with moral philosophy is that branch of philosophy that deals with the study of right or wrong, good or bad of an individual conduct. The concept of 'ethics' have changed over time. Traditionally the concept use to revolve around ideas like living a good and happy life (Aristotle), ideal behaviour as a result of acting as per one's duty (Kant) etc. With time, the limitations of the traditional concept became quite prominent and subsequently the concept changed. Modern philosophers and ethicists have divided ethics into three sub branches namely descriptive ethics, metaethics and normative ethics. Business ethics is a new concept, and modern philosophers have categorised business ethics as a part of applied ethics which falls under normative ethics branch. It is the application of the sense of right or wrong, justice or injustice, good or evil in business. Despite the concept of business ethics, business scams are quite prominent in this world. World scenario reveals that unethical practices like insider trading, deceptive advertising, basic employee rights, job discrimination etc are quite frequent and prominent. Some notable scams were Enron scam, WorldCom scam, Satyam scam, Ketan Parekh scam, Harshad Mehta scam, PNB scam, Saradha Group financial scam and many more. In this context, the present study is an attempt to analyse as to whether business ethics as talked about is just a myth or is it really applied in practice. If yes, then the various famous scams show the answer to be different and if no what are the factors influencing the ethical behaviour of an individual.

KEYWORDS: Business Ethics, Ethics, Philosophy, Scams.

1. INTRODUCTION

The traditional concept of ethics deals with the act of right or wrong, justice or injustice, good or bad, virtue or vice of human conduct. The term 'ethics' has its origin from the Greek word 'ethos' which means relating to one's character. The traditional concept of ethics in philosophy seeks answer to the questions like what is right or wrong, what is called a good life, is the concept of morality relative or absolute, what it is actually, should one give importance to good life and happiness only or to moral judgement etc. With time finding answer to these questions became difficult. The idea of ethics changed over time. Contemporary philosophers and ethicists ask more theoretical and abstract questions. The idea of living a good and happy life (Greek Philosopher Aristotle) and ideal behaviour as a result of acting as per one's duty (Kant) has been questioned over time. Along with this, the distinction between ethics and morality became more prominent. Modern philosophers have divided ethics into three sub branches namely- descriptive ethics, metaethics and normative ethics. Applied ethics the new concept is a part of normative ethics. Descriptive ethics deals with ethical behaviour of various people across various cultures.



Meta ethics is concerned with the explanation of the theoretical meaning and the reference of the moral propositions. This branch of ethics attempts find answer to the question like how many think or what proportion/percentage of people think killing is always wrong rather than finding answer to question like how many firmly believe the idea to be right- which is the task of normative ethics. Normative ethics deals with norms, standards, criteria that constitute the theory or principle of ethics. Applied ethics is a branch of normative ethics that aims at application of ethics to real life problems like capital punishment, euthanasia etc. The concept of environmental ethics, computer ethics, etc has been included under applied ethics. Business ethics - the objective of this study falls under applied ethics.

In simple terms, business ethics is the application of ethics in business. The term business ethics can be scanned as business and ethics. Business is exchanging of goods and services in lieu of cash or in credit with the objective of earning profit. Ethics is the act of doing right or wrong, good or bad, justice or injustice. Combining these two is business ethics which states application of ethical principles in the field of business. Ethics in the field of business refers to the application of moral principles relating to the issues of unethical practices in business like insider trading, misleading advertisement, depriving employees from their rights, job discrimination, causing harm to the society etc. The present study is an attempt to discuss the role of philosophical ethics in business rather to find answer to as whether ethics in business is just a myth or really applied in practice.

2. OBJECTIVES OF THE STUDY

The objectives of the present study are:

- To discuss about ethics in philosophy
- To analyse as to whether the business ethics is actually applied in practice citing examples from different famous scams over the world.

3. DATABASE AND METHODOLOGY

The study is based on secondary data. Different facts and figures have been collected from websites, journal articles, magazines, dailies etc. It is purely a descriptive study based on all the facts collected from websites. No statistical tools have been used.

4. DISCUSSION

Despite the concept of business ethics, business scams are quite prominent in this world.

ETHICS IN PHILOSOPHY

With the advent of civilization, over decades the technological advancement, changing business scenario has changed the age old concept of 'ethics' over time. Traditionally the concept of ethics use to revolve around the ideas propounded by ancient philosophers. Famous Greek philosopher Aristotle focused on living a good and happy life, Immanuel Kant said ideal behaviour as a result of acting as per one's duty. These concepts have been questioned over time. Gradually the distinction between morality and ethics became prominent. Many modern philosophers opined morality to be different from ethics. Some said, ethics is not only what is right or wrong, it depends on the individual human behaviour rather it encompasses the human behaviour in context of a particular situation. It is a relative concept. Moreover a particular act or behaviour may be right to a particular person but the same may be wrong to another one. So the concept of ethics is ever changing, it is a dynamic process and not a static one. Ethical principles most often depend on personal judgement, attitude and behaviour of people in a given situation. Modern philosophers and ethicists have divided ethics; have raised questions regarding these issues. They have divided ethics into three sub branches namely descriptive ethics, metaethics and normative ethics.

- **Descriptive Ethics-** Descriptive ethics as the name suggests is the description of the existing ethical principles. It is concerned with the existing moral beliefs of human being.
- **Metaethics-** Meta ethics is concerned with the explanation of the theoretical meaning and the reference of the moral propositions. Meta ethics is that branch of philosophy which focuses on 'how' rather than on asking should. The questions in Meta ethics is more abstract and its scope is wide it covers a wide range of practical questions.
- **Normative Ethics-** Normative ethics is the ethics which deals with the practical means of determining moral values. Normative ethics deals with how an individual should act. It is prescriptive rather than descriptive. It states how it is the corollary to the existing moral standard, principles, and beliefs.

Applied ethics is a new concept in philosophy which is considered to be a branch of normative ethics. Applied ethics as the name suggests is the application of ethics in practical field. Some areas of applied ethics are computer ethics, environmental ethics, business ethics, bio ethics, public service ethics etc.

The concept of business ethics and its application in practice, which is the objective of the present study, is a new idea in the area of philosophical ethics. Business ethics can be defined as application of ethics in the field of business.

Ethics is required in every aspect of life; similarly in business, ethics is important. Absence of ethics leads to increase in number of unethical activities like insider trading, deceptive advertising, basic employee rights, job discrimination etc. Carrying out a business in a transparent way is of utmost importance for growth and development of the economy. Despite the concept of business ethics, business scams are quite prominent in this world. The world scenario reveals that the unethical practices like insider trading, deceptive advertising, basic employee rights, job discrimination etc are quite prominent. A look into the pages of history of business would reveal a number of scams, frauds, manipulations etc across national as well as international boundary. So, the question arises whether business ethics is really followed in practice. It is indeed difficult to answer this question. Looking back reveals something different and business scams are taking place and has become quite frequent. Some of the famous and gigantic scams in Indian and across the world have been discussed below:

Indian Cases

- **Satyam Computer Services Ltd Case in the year 2009**

In this case, promoter of the company B.Ramlinga Raju was allegedly involved in pledging shares and buying and selling those shares frequently. Negligence on part of the renowned audit firm PriceWater House Coopers (PWC) was proved. Rather it was found that the audit firm was involved in this fraud case. Investigators took actions to punish the fraudsters involved in the case.

- **Punjab National Bank Scam from 2011-2018**

Nirav Modi owner of Firestar Diamonds, Ami Modi, Neeshal Modi, Mehul C Choksi are the fraudsters involved in this case. Fraudulent letter of undertaking issued by Punjab National Bank employees of Brady House Branch Mumbai, which has made easy for Nirav Modi and his associates to obtain huge amount of loan without any sort of hindrances. The amount of fraud was for Rs.13600 crores. It was found in course of investigation that bank employees were allegedly involved in this fraud case. PNB core banking system (CBS) was not linked to Society for Worldwide Interbank Financial Telecommunication (SWIFT). Hence they took the advantage of this situation, bypassed the CBS and took loan from various Indian overseas bank branches with fraudulent letter of credit. Gitanjali Gems Ltd jewellers and its subsidiaries Gili and Nakshatra are also suspected to be involved in this case.

- **Saradha Scam, 2013**

This is one of the well know scam. A Ponzi scheme was run by Saradha Group that was a consortium of about two hundred companies. They collected the savings of investors and called it a popular investment fund but although it was a chit fund. The amount of fund siphoned off was Rs.2500 crore. The main accused the Chief of the Company was arrested and punished for the act.

Apart from these, there are various famous scams like the Ketan Parekh, Harshad Mehta scam etc, where brokers have pushed the share price high but after it reached a certain level the price plummeted leading to huge loss of common investors. Sometimes price of shares of some fake companies without any reason has been raised to a high level; suddenly it dropped shattering the confidence level of common investors. There is the Common Wealth Game Scam in the year 2010, involving an amount of Rs.70,000 crore. The chief accused in this case was Suresh Kalmadi. This case, involved giving contract to fictitious companies, that didn't have a real existence.

Another very well known case is Vijay Mallya- the founder of the private airlines company Kingfisher fled away from India. He defaulted on his loan badly. The amount of loan increased to Rs.9500 crores to IDBI and other banks.

There are other scams like the 2G Spectrum Scam, Indian Coal allocation scam, Colgate Scam etc. and many more.

World Famous Cases

- **Rajaratnam Case (2009)**

Raj Rajaratnam was the founder of Galleon Group and he was involved in insider trading. The charges against him was, publicly trading on the price sensitive information of some of the renowned companies' share namely- IBM, McKinsey, Bear Stearns, Goldman Sachs, Google, Berkshire Hathaway and earning a huge amount of illicit profit. He was penalized for his act.

- **Rajat Gupta Case (2011)**

Rajat Gupta, Anil Kumar, Rajaratnam were friends and they founded a private equity firm worth \$1.3 billion - New Silk Route firm. Rajaratnam and Anil Kumar withdrew their holdings before the firm started its business but Rajat Gupta didn't.

Rajat Gupta provided information on Goldman Sachs which increased Rajaratnam fund to \$17 million. Information on Procter & Gamble helped to increase the profit by an amount of \$5,70,000. As a result, it became easier for Galleon Group and they sold their holding of Goldman Sach thereby avoiding a loss of \$3 million. Rajat Gupta was accused by Securities Exchange Commission (SEC), but being supported by white collar criminals. Though Rajaratnam accused Gupta in his trial but still it was difficult for SEC to prove charges against him.

Other famous cases include, Amit Kanodia and Iftikar Ahmed Vs SEC (2013) case, where Amit Kanodia and Iftikar Ahmed were involved in insider trading. They earned a huge amount of profit in an illegal way on the basis of the news of the proposed acquisition of Cooper Tire and Rubber Company by Apollo Tyres at an amount of \$ 2.5 billion. Some other famous business scams include Enron Scam in the year 2001, where the main accused was Arthur Andersen the auditing firm in United States. The share price of company surged to the extent of \$90.75 per share during the middle of year 2000, but suddenly declined to less than \$1per share during the end of year 2001. Tyco corporate scam was another one in the year 2001, where the CEO of the company was the main accused. The charges against the company were followed unethical business practices like siphoning of funds, not disclosing all transactions in financial statements, wrong auditing practices etc. Other world famous cases are Banco Espirito Santo in the year 2014, where huge financial discrepancies came into limelight in course of audit of the bank, Dick Smith retail case in the year 2016 etc.

Going through the history of business scams and scandals across national as well as international level shows that these are very common age old events.

5. CONCLUSION

Various rules and regulations are there in curbing the menace of unethical business practices. In India Securities Exchange Board of India, is there as the regulator of any unethical activities relating to financial markets. Unfortunately, the corruption index ranks India in 40th position in terms of corruption. Securities Exchange Commission in US, Financial Services and Markets Act, 2000 in United Kingdom etc is there to look after these unethical issues. Despite all these, unethical business practices are quite common. Some of the cases discussed above are the instance of the fact that these are not rare events rather very frequent. So, the question arises, does the concept of ethics applied in business popularly what is known as business ethics is just a myth or really followed in practice. It is indeed difficult to answer this question. The history of business scams and scandals implies the answer to be no. The concept of business ethics talks about application of philosophical ethics in business practice. If it was really applied and followed in practice, then the instances of such business scams would have been very rare, but the reality is something different. Theoretical definition of ethics states ethics as the sense of right, wrong, good or bad and business ethics is its application in business. It is difficult to apply in practice because the sense of morality plays an important role and one is always different from other. Abiding by ethical code of conduct by an individual depends primarily on personal judgement and it varies. So unless and until the sense of virtue comes from the inside feelings of an individual it is difficult to see business free from scams.

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