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## WHY IS ETHICS NECESSARY IN BUSINESS ?

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### ABSTRACT

Ethics plays an important role in a business. The existence of ethics is expected to be a barometer measuring moral values, especially policies resulting in business. The policy is expected not to harm the public who serve as the spearheading of a business. This paper aims to examine the reasons why business ethics must be done by a business enterprise. Descriptively this paper explains that it is necessary for a business enterprise to apply business ethics as a tool or weapon to compete with its competitors. A company running an ethical business will be able to maintain its viability in the long term.

Keywords: *business ethics, competitiveness, and public policy*

### INTRODUCTION

Business ethics is an *intangible* or invisible thing. In business environment that is extremely dynamic, business ethics can be one tool or weapon to compete with other competitors, so that the issue of business ethics becomes very interesting and challenging to review. Ethics is a set of general agreement to regulate the relationship between people or an individual with society, or between a society and another one. Ethics can be either in the written or unwritten form. The written ethics, for example, is a policy in the form of laws, rules and regulations. The unwritten form of ethics is contained in the form of general agreement within a society or community. This agreement is known as manners, etiquette and so on.

Ethics which is a collective agreement, is also applied in the business world. In conducting its activities, businessmen should take into account the consequences that may result from the decisions and actions of the company towards the *stakeholders*. In the business world there is also a set of rules that govern the inter-relationship among businessmen. The set of rules can be laws, government regulations, presidential decrees and so on.

Most of the global society assess the behavior of lying, stealing, cheating and hurting others as unethical and immoral. While the behavior of honesty, keeping promises, helping others and respecting the rights of others, is seen as a moral ethical deeds. The grouping or sorting of behavior into a variety of categories of ethical behavior and unethical behavior is needed to keep and maintain the continuity of businessmen everywhere, including in Indonesia. This article is to answer the questions why it is necessary to apply ethics in business? The purpose of this article is to study or examine why business ethics should be done by businessmen and companies.

### THEORETICAL BASIS OF ETHICS

Some theories of ethics developed by the experts include: *Theory of Justice* that was proposed by John Rawls (1971); it explains that there is no perfect benchmark in the foundation for

ethics because there will always be weaknesses and lacks. Furthermore, Leviathan in Thomas Hobbes (1986), assumes that an individual has a natural tendency to be paid attention, in particular, on his/her interest and welfare. Adam Smith (1723-1790), who was famous for his *self-interest*, revealed that everyone has a *self-interest*. This does not only mean that people want to think about themselves, but also they pay attention on the welfare of their closest people, families, and social environment. In this way, people behave ethically for the purpose of fulfilling the interests of themselves and their closest people, including their social environment. Further, the theory proposed by Immanuel Kant (1724-1804) says that something good (absolute) is goodwill. The best moral concept is the reason, not experience. Basically, human beings behave ethically with motivation background that is not necessarily the same because there is *self-interest* that naturally belongs to man.

There are several basic theories used in ethical behavior, namely: utilitarianism, consequentialism, deontological, justice, fairness and virtue ethics.

1. *Utilitarianism*: defines that ethical behavior will result in the highest happiness and the least sadness. This theory is oriented to the people interests. The weakness of this theory is that happiness and sadness are difficult to measure; they are abstract, relative and subjective.
2. *Deontological*: theory explains that motivation underlies someone in doing ethically. This is consistent with Kant's theory that something good is based on goodwill. By this logic, the goodness or badness of something is assessed from self-motivation. However, it could be, someone acts ethically because he complies with applicable laws and fears of punishment, if he breaks them (it occurs when the law was made on the base of ethical values). One of weaknesses of deontology among others, is the absence of clear *guide lines* to define good or bad when there is a legal conflict with one another.
3. *Justice and fairness*: this theory developed by David Hume (1711-1776) explains that the need for justice arises because man does not always get the benefit or is fulfilled for their needs, while resources are limited in number. One of the development of justice theory is *distributive justice*, namely it adjusts what has been done by someone with what will have been obtained.
4. *Virtue ethics*: it internalizes the ethical values into the soul or personality of an individual in the form of character, integrity, compliance, and so on.

The theories that have been mentioned above are needed when someone is confronted with an ethical dilemma or decision-making process. Scientists' real contribution that is the development of the above theories is indicated by EDM (Ethical Decision Making Framework). In addition, the decision-making should also be done by the analysis of stakeholders which covers shareholders, activists, Governments, creditors, lenders, employees, customers, suppliers, etc. What should be analyzed? One of which is impact of the decisions made towards such parties.

## BUSINESS ETHICS

Ethics according to Big Indonesian Dictionary (KBBI) is the science about what is good and what is bad and about the rights and moral obligation. Business ethics is a thought or reflection on morality in general economic and business. These principles are very closely related with the value system obeyed by each community.

Keraf (1998) explains that the principles of business ethics are as follows:

1. **Autonomy principle** is human attitude and ability to take decision and act based on his consciousness about what he thinks good to do.
2. **Honesty principle**, has three scopes of business activities that can be shown clearly in that business will not last long and succeed if it is not based on honesty. First, it is honest

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in the fulfillment of conditions of agreement and contract. Secondly, it is the honesty in offering goods or service with quality and comparable price. Third, it is honesty in an internal work relationship in a company.

3. **Justice principle** demands that everyone be treated equally according to fair rules and objective criteria, and can be taken into account.
4. **Mutual benefit principle**, demands that the business run in such a way that it is profitable for all parties.
5. **Moral integrity principle**, particularly is internalized as internal demand that the businessmen himself or companies need run the business by keeping the good name of the leader/ employees as well as the company.

Really many big companies have already taken right steps towards the application of principles of business ethics although the adopted principle could be diverse. First, the building of what is known as corporate culture. This corporate culture was first built basically on the vision or philosophy of the business founder of some company as the personal appreciation of the person about the good business. This vision was later applied and enforced in the company, which means this vision then becomes organizational attitude and behavior in the company both internally and externally. Thus, a business ethos was built; a custom embedded to all employees since they were accepted in the company and it becomes behavior in the company, and it continues to be evaluated in context of refreshment in the company.

This ethos has become the soul which unites and also spark all employees to act and hold figured behavior in more or less the same based on the principle adopted by the company. Whether or not a business ethos develops is determined by the leadership style in the company. By having the same ethos, it is expected to strengthen the company's vision in achieving its objectives.

## **PUBLIC POLICY**

The company's relationship with the customers can create various ethical problems in the field of production and marketing. To protect consumers from the unethical treatment that may possibly be done by the company, The Indonesian government has already enforced the Law No. 8 of 1999 on Protection for Consumers.

In principle, business activities are conducted by and addressed to man. Thus, there must necessarily be a set of rules and policies that regulate clearly so that humans do not become the victim of business activity. The Standard ethical that is specified in the Code of Conduct (Guidelines on ethical behavior) of course becomes general awareness for businessmen. With respect to Indonesia, whether it is accepted or not, the rules and policies should become a must to be conducted by business enterprises, both the policy produced from Indonesia as well as policies that have global nature that have become international standard.

## **DISCUSSION**

Why is ethics needed in business? Does the business activities only aim to gain profit as much as possible in any way? Will the ethical behavior held by companies only hinder companies to be able to compete with their competitors? The answer is, that **business ethics is needed to form a solid company that has high competitiveness and has the ability to create high value.** By having a business ethics, a company has more value in the public eye than its competitors.

Ethics hold an important role in some business. The existence of ethics is expected to be a barometer of the measurement of moral values, in particular, the policy resulting from the business. Nowadays, business is only made as tool to reach mere profit. The expression, "business is business", of course needs to be removed in the mind of companies. There is a more important thing that must become the attention of companies and public sector instead of reaching personal or group profit, namely: the need of business ethics.

There are some areas that become ethical concern in the field of marketing, especially in the areas of promotion, particularly, advertising. The aim of marketing is to sell products, services and ideas to people and this can be done in many different ways, and not all companies do the ethical thing. Marketers must be careful of advertisement and promotion that is done to avoid conflict with the law. Many consumers are aware that the ethics of marketing has shifted radically. In the mid 20th century, for example, a lot of advertisements that promote the benefits of goods and services that are not in accordance with the products they sell. Marketers should promote the products and services they sell in an honest way without deceiving or forcing. Marketing ethics also includes a good relationship between the marketer and the consumer.

The existence of television broadcasters which are at the forefront whenever there is a warning, claims, or lawsuits from people; it places the position of the media that broadcasts an advertisement not too risky. This is due to the fact that the television broadcasters themselves can deliver these advertisements after they previously have received "a green light" declaring that the ads have passed the censorship from the Film Censorship Board (LSF). This means that the task of the media is to perform a *self-censorship* on the ads which is actually no longer binding because the task has been performed by LSF.

LSF is obliged to provide protection to the consumers from programs that are broadcast through the mass media. The most important protection which is associated with the unethical advertisement, is actually the protection of the consumers' rights to obtain correct information. LSF generally only keeps the ads from getting out of the corridors of morality. LSF may not be burdened with the duty of verifying the information of every ad one by one. This obligation is essentially the responsibility of the advertiser.

If consumers find ads that substantially contains misleading information (*misrepresentation*), then the consumer can file a lawsuit in civil and/or report to the authorities to take administrative action and/or punishment. In this context, consumers are welcome to use the Consumer Protection Act as an instrument, Article 1365 of the Civil Code (*onrechtmatige daad*) or Article 378 of the Code of Criminal Code (fraud). For a civil lawsuit, consumers can even file lawsuits for a representation of a group (*Class action*) that is made possible through Article 46 of the Consumer Protection Act.

If consumers want to use the instrument of the Press Law, the right of correction mechanism is the best step that can be taken. Here consumers are given the opportunity to express their objections to political advertising as a way to correct it. Broadcasters are required to publish this correction. In the Press Law is also known as the right of reply, but this right is usually given to the context of the media coverage that is concerned and not to the advertisement which is actually not produced by the broadcasting institutions.

Another path that can be taken is to deliver consumer complaints to the Indonesian Broadcasting Commission (KPI) or the Press Council. Complaints can be used by the KPI to follow up with administrative sanctions against broadcasters that bring about problems. It is evidently listed in Article 99 paragraph (1) of the Law on General Elections. This provision states that sanctions can be imposed by the KPI as follows:

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1. Written warning
  2. The Stopping momentarily problematic programs
  3. Reduction in duration and timing of reporting, broadcasting, and advertising campaigns election
  4. Fine or sanctions
  5. The frizzing of news operations, broadcasting, and advertising of general elections for a certain time, or
  6. The dismissal of broadcast licenses or revocation of license issuance of the print media.

Thus, when business ethics are applied in the company, it means as follows:

1. Avoid violations of the law
2. Avoid a legal challenge made by public on the company
3. Avoid bad company *image*

Companies must pay attention to three things, because if the company gets a loss, and its reputation begins to decline, then this could destroy the company gradually.

## CONCLUSION

Business ethics is very important to protect the company's reputation. Ethical problems are always encountered in business activities; the reputation of a company that is ethical is not formed within a short time but it will be formed in the long term; and this is an invaluable asset that is referred to as *goodwill* and *intangible assets* for a company, and it can be a special trademark in the competitive advantage.

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