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"ETHICAL DILEMMAS AND CORPORATE GOVERNANCE FOR TODAY'S MANAGERS. "

Prachi
Research Scholar, Maa Shakumbhari University

Dr. Mohammad arif
Assistant Professor, Faculty Of Commerce Govt. P.G.College ,Deoband,Saharanpur

Abstract

From a compliance perspective, this article explores corporate governance challenges. It differentiates between legal and ethical compliance measures and demonstrates that the former is obviously insufficient due to its lack of moral clout to rebuild trust and restore confidence. Legal compliance measures may not be tackling the core challenges that motivate ethical action, and the ideas of freedom of indifference and freedom for excellence offer a theoretical foundation for understanding why. This article takes a virtue ethics stance on the topic of ethical compliance mechanisms, focusing on the function of the four cardinal virtues as they pertain to leadership. Saint Josemaría Escrivá, renowned for his exceptional organizational and governing abilities, is shown in the works as offering some visual reflections on the fundamental virtues. The propensity to place an excessive emphasis on systems for ensuring legal compliance might lead to efforts to replace "responsibility" with "accountability" and even to legislate morality. A dedication to ethical corporate practices and the constant application of fundamental ideas and values are at the heart of the virtues in governance, which aim to provide a set of practical solutions.

Keywords:- *Corporate Governance, Virtue Ethics, Natural Law Ethics.*

Introduction

Given its apparent significance for the economic well-being of both firms and society as a whole, corporate governance has garnered substantial public attention during the past 20 years. Worldwide Communications, Anderson, Merrill Lynch, Enron, Martha Stewart, Global Crossing, Qwest Communications, Tyco International, Adelphia Communications, Computer Associates, Parmalat, Putnam, Boeing, Rite Aid, Xerox, and the headlines of the last two years illustrated a tragic tale of corporate ethics (or lack thereof). The whole economic structure that has supported investment returns is displaying symptoms of stress that have eroded investor confidence, as seen by falling stock markets, company bankruptcies, questionable accounting methods, abuses of corporate power, and criminal investigations. Many of the companies that saw rapid expansion in the past due to acquisitions financed by overly optimistic stock prices and forecasts of even greater futures have now collapsed. In other cases, it appears that the processes meant to safeguard shareholder interests were neglected due to a focus on maximizing profits at the expense of proper oversight. Many of the same companies displayed real concerns with corporate governance, including conflicts of interest, incompetent directors, excessively lucrative compensation, and unequal voting rights for shares, even though some of their failures were due to fraudulent accounting and other unlawful practices (Anderson and Orsagh, 2004). The need of good corporate governance has been reemphasized in light of recent scandals and malpractices.

In light of the OECD's accepted definition, it is clear that corporate governance encompasses a wide range of ideas and phenomena - A company's management and oversight are based on its corporate governance structure. A company's corporate governance structure lays out the ground rules for decision-making in corporate affairs and outlines the roles and duties of various stakeholders, including the board of directors, management, shareholders, and others. Furthermore, this gives the framework for setting organizational goals, as well as the methods to achieve those goals and track achievement. 1 . This definition of corporate governance makes clear that it encompasses a company's responsibilities to both its shareholders and society at large, as well as its efforts to foster an environment where managers are held to account and where decisions are made in a way that prioritizes the interests of all relevant parties. Transparency and accountability, the regulatory and legal landscape, effective risk management strategies, information flows, and the duties of top executives and the board of directors are therefore the primary concerns in corporate governance. Weaver et al. (1999) notes that many American businesses have implemented formal procedures to ensure legal compliance with regulations regarding employee conduct and ethics. This trend is largely attributable to the 1991 U.S. Sentencing Commission's Guidelines for organizational defendants, which offer reduced penalties and sentencing to businesses that have implemented anti-corruption policies (Metzger et al., 1994 and Paine, 1994). Concerning the ethical side of things, the most basic concerns of corporate governance revolve on questions of relationships and trust-building, both inside and outside the company.

Although many of the governance challenges that organizations encounter are not novel, the context in which they are confronted is more difficult than ever before, as pointed out by Harshbarger and Holden (2004): The media has brought greater attention to the issue, both among the affected parties and the business community at large; shareholder proposals are now given greater weight; and the judiciary has shown its readiness for a stricter definition of good faith. Additionally, state and federal law enforcement agencies have bolstered their resources and adopted a more aggressive approach to confronting governance lapses. In addition, several reasons, like as increased competitiveness, technological advancements, and globalization, have brought ethical dilemmas into the spotlight. The capacity to provide professional service will inevitably occur in a world where individualism is on the rise and globalization is pervasive, as pointed out by Van Beek and Solomon (2004). organizations no longer function in the same manner as they once did, and the new realities of corporate governance have redefined the bar for reasonable behavior on the part of organizations and their leaders (Dandino, 2004).

Objectives

- To improve business operations and deter mismanagement
- To accomplish business objectives through the use of financially rewarding investment vehicles.

Legal and Ethical Compliance Mechanisms

Legal Compliance Mechanisms

Many public-enraged abuses are really quite lawful; for instance, businesses can submit deceptive accounting accounts that fully adhere to GAAP, which is a problem with legal compliance processes. France et al. (2002) note that there are a number of problems with the current system for handling corporate law enforcement. These include vague regulations, juries' inability to understand complex financial concepts like special-purpose entities or derivatives, executives with legal representation can easily avoid responsibility (both Enron and its officers deny any wrongdoing), and the fact that criminal law is applied only in the most severe cases, making it difficult to enforce compliance. Badaracco and Webb (1995) found some troubling tendencies based on in-depth interviews with 30 Harvard MBA graduates. First, under the influence of powerful organizational pressures or direct orders from their middle-manager superiors, young managers were led to engage in practices that they perceived as dirty, immoral, or even unlawful. Second, in these types of settings, legal compliance tools (such as mission statements, codes of conduct, corporate ethics programs, and hotlines) were mostly ineffective. Thirdly, a few of the junior managers held the view that the senior executives of their organization were either too preoccupied or intentionally avoiding responsibilities to deal with ethical concerns. Lastly, rather of depending on corporate credos or business loyalty, the young managers mostly relied on self-reflection and individual principles to tackle the problems they encountered.

Despite the accounting profession's long-standing emphasis on internal controls, public trust in auditors and the auditing profession has taken a hit due to a string of high-profile company failures in recent years. Out of seven financial reporting difficulties examined by Brief et al. (1997), 87% of accountants indicated a willingness to mislead financial statements in one instance or another. As a result, new and more rigorous standards3 have been implemented. The current issues plaguing the legal, accounting, and medical fields are not unique to the sector. In today's culture, they contribute to issues in many areas, including sports, business, politics, education, and the government. There are more opportunities for unethical behavior in the financial system, which is why many of us are worried about the absence of ethics in business. Many controversies have brought legal compliance methods back into the spotlight. Among the many proposed changes to the Sarbanes-Oxley Act are measures to make C-suite executives more answerable for their companies' financial reporting, to make both the C-suite and the CFO sign off on financial statements, to bolster the audit committee's authority, and to prohibit certain non-audit consulting services offered by external auditors. Critical accounting policies and practices, information on alternative treatments of financial information, and any material written communications with management (including disagreements as to the presentation of a company’s accounts) are all topics that auditors are obligated to report to audit committees. By mandating executive sessions, a majority of independent directors, and a stricter definition of independence, the listing criteria of the New York Stock Exchange and Nasdaq aim to enhance boards' independence.

Although students were troubled by recent corporate scandals (with 84% believing the US is experiencing a business crisis and 77% believing CEOs should be held personally responsible), 59% of the same students admitted to cheating on a test and only 19% said they would report a fellow student who did the same. This finding is ironic, according to Weisul and Merritt (2002), who surveyed 1100 college students on 27 US campuses. While legal compliance processes are an important part of good corporate governance, they have not been effective in restoring confidence or trust in the company. After contrasting legal compliance mechanisms (codes) with ethical compliance mechanisms (virtues), Termes (1995) comes to the conclusion that imposing codes of ethical behavior cannot guarantee that financial institutions will operate ethically. Rather, the only way for companies to be ethical is for individuals to be ethical.

Ethical Compliance Mechanisms

According to research by Trevino et al. (1999), the overall impression of a program's focus on values and ethical goals is more important than its particular features when it comes to legal compliance programs. Important aspects of an ethical atmosphere, including ethical leadership, treating people fairly, and having open discussions about ethics, were shown to be the most helpful. Another factor was the degree to which policies and behaviors were consistent with one another. Legal compliance initiatives are seen as a means to shield upper management from responsibility, whereas an ethical culture that prioritizes self-interest and blind obedience to authority is the most harmful. Collins (2001) looked at eleven companies that went from being good, solid businesses to great ones that generated phenomenal and sustained returns for their stockholders. The study focused on ethical leadership issues and the characteristics of effective business leaders in these companies' cultures. During the pivotal time when each company he studied was going from excellent to outstanding, he identified "Level 5" leadership, his highest rating for executive qualities. This was true across the board. While all company leaders shown a combination of intense passion and dogged persistence, Level 5 leaders went above and above by prioritizing the well-being of their employees and stockholders over their own personal gain.

Executives are realizing the importance of trust, honesty, and justice to the bottom line as a result of previous abuses, as pointed out by Byrne (2002). Companies and their founders are suffering in the current market downturn due to a lack of investor trust since they seem to have forgotten that running a company is all about principles. In the post-Enron, post-bubble world, many companies are reevaluating their goals, values, and purpose, according to Byrne (2002). This is because they realized they could get away with lax accounting rules and ethical standards, which led to performance being disconnected from meaningful corporate values. Corporate cultures are shifting to place a higher value on honesty and reliability in the new model of the business that is taking shape. Redefining expectations so that investors are more realistic about the returns a company can legitimately and consistently achieve in highly competitive markets, reevaluating executive pay to create a sense of fairness, and elevating the interests of employees, customers, and communities would all be part of these changes. Less emphasis on "shareholder value" that measures performance solely on stock price would also be part of the package. Recent scandals and breaches have their roots in and were influenced by corporate culture. The necessity to address certain fundamental questions is highlighted by Hansen (2004), who challenges the efficacy of legal compliance procedures in guiding businesses toward integrity: Is the intended outcome likely to be realized as a result of Sarbanes-Oxley and the required reforms? Is the likelihood that our efforts will mostly be focused on formulaic conformance with the appearance of ethical probity high, or will we succeed in creating a more ethical corporate environment? Is it likely that businesses would only make hollow promises when they publicly support integrity? For instance, some companies could believe that making their value statement bigger will make them more committed to ethics. Since the problem is to determine if a company's compliance program is functional or just a "paper program," more explicit acknowledgment of culture's significance in organizations may soon be approaching, as pointed out by Hansen (2004). One indicator of a genuine compliance program, as opposed to a paper one (e.g., does the organization treat employees fairly), is a cultural norm that stresses the significance of compliance. Is it trustworthy while doing business, etc.?

Legal vs. Ethical Compliance Mechanisms

The reason ethics is given normative primacy in practical affairs and legality is to be judged in relation to ethics is because, as Kleining (1999) points out, there are significant differences between the nature and content of ethical and legal requirements, even though there are some convergences and congruences. To be more precise, the core concerns of ethical standards center on reasons, motives, intents, and character as it manifests in behavior, whereas the primary focus of law is on conduct itself. Therefore, ethics isn't only about our actions; it also concerns our identity. Furthermore, ethical principles tend to be more universally applicable, in contrast to the jurisdictionally restricted nature of legislation, which arises from the fact that what is lawfully necessary in one nation or state may differ from another. According to Kidder (1995), "obedience to the unenforceable" is the definition of ethics. Overemphasis on legal compliance mechanisms6, according to Longstaff (1986), might lead individuals to stop thinking for themselves and make poor judgments, which would be unethical. A minor change from "responsibility" to "accountability" might emerge from this. You can see the distinctions between the methods to ethical and legal compliance in Table 1.

Table 1 A Comparison of Methods for Ensuring Legal and Ethical Compliance *

Factors	legal	Ethical
Ethos	Thinks of ethics as a requirement with boundaries	Gives the definition of ethics as a code of conduct that people should follow while making decisions.
Objectives	With the goal of avoiding illegal behavior	With the goal of attaining responsible behavior
Method	Places strong emphasis on regulations and enforces them	Views corporate ethics as intrinsic to all aspects of

	through stricter monitoring and harsher penalties.	running a company (management, fundamental procedures, decision-making, etc.)
Behavioral Assumptions	Having its origins in deterrence theory, which explains how to avoid undesirable actions by changing the consequences for those who disobey the rules.	Based on shared and personal principles (material and spiritual)

Creating a company culture that goes above and beyond what is required by law is more important than ever in today's economic climate.7 . The new laws and regulations must not lose sight of their content in the rush to conform to their form, according to Harshbarger and Holden (2004), who also concur that this is necessary as the new realities of corporate governance take hold. They highlight the importance of organizations striving to comply with both the legal requirements and the spirit of the new reforms. The reforms aim to provide organizations with a stronger insurance mechanism at a low cost and help mitigate any penalties that may be imposed. Another benefit is that organizations will be able to make better decisions with more accurate information flowing to the top. Lastly, leaders should take advantage of the reform period to institutionalize their systems and come up with more clearly defined standards.

Method: -

According to the argument presented by Sugiyono (2012), a population is a large category that encompasses a lot of products or subjects that share characteristics that may be used to derive conclusions. Individuals who are members of the West Java Jamu Entrepreneurs Association participated in the study. The approach of deliberate sampling was used in order to collect a sample from a total of 38 different companies. As Sugiyono (2012) notes, intentional sampling is a method that allows one to choose a data source from among a pool of probable candidates by taking into consideration a variety of different concepts and selection criteria. The following is the definition that Suwarno et al. (2022) provide for a family business: Twenty-five percent of the owners are also investors; at least one member of the founding family serves on the board of directors or in an administrative role; and the founder or a member of the founder's immediate family (spouse, parents, children, or heirs) is in charge of the business. In order to sample according to the predetermined criteria, a preliminary questionnaire is used. The purpose of this preliminary study is to distinguish between different types of businesses that are owned and operated by families. According to the findings of the study, the West Java Jamu Entrepreneurs Association is comprised of around fifteen member businesses, all of which are owned by families. In light of this, the study will make use of information gathered from as many as fifteen distinct family companies. One respondent is the basic minimum that must be included in each sample.

Table 2. Sample List

Number	Company Name
1	CV Bintang Terang Lestari
2	PT Elanazma Prima
3	CV Jasarama
4	PT Holistic Indonesia
5	PT MiteraSejatra Jaya Agung
6	CV Bin Dawood
7	CV Albaik Herbal Indonesia
8	PT AlomampaPersada
9	CV Basmallah Food
10	CV Toga Nusantara Group/Toga Food Nusantara
11	CV Griya An-Nur
12	PT Fatonah Amanah Shidiq Tabligh (FAST)
13	CV Vermindo International
14	CV Honey Apriari Pearl
15	Ganfood International

For the purpose of this investigation, the author collected material from original sources. Primary data is information that is acquired directly from the resource person who will be the subject of the study. Researchers utilize research instruments to collect primary data by gathering this information. The opinions of research participants, first-hand reports of an event, or the results of tests are all instances of primary data. For the purpose of the research, data was collected via the use of a variety of methods, such as questionnaires, interviews, and observations during fieldwork. The interview is conducted in accordance with a predetermined framework, and the questions had been prepared in before. In the course of conducting in-depth interviews, we make it a point to ask a wide range of open-ended questions in order to get the most amount of information feasible. Using a methodical approach, further observations were made in order to provide support for the conclusions that were obtained from the interview. The process of identifying anything in any form that can be examined in order to obtain information that is pertinent to their study and develop conclusions is referred to as "variables" (Sugiyono, 2012). Researchers have identified anything in any form that can be investigated. There were three variables that were used in this study: X, Y, and Z. These variables served as the independent variables and the bound variables, respectively. In Indonesian expressions, the independent variable is often referred to as a stimulus, predictor, or antecedent variable. The letter X is used to indicate the independent variable. Sugiyono (2012) defines an independent variable as one that has the capability to influence or change the appearance of the variable that is being studied (the dependent variable). Both good corporate governance (X2) and business ethics (X1) are the independent components that have been investigated in this study.

An output, criterion, or consequent variable is a variable that is impacted by the presence of independent variables, as stated by Sugiyono (2012). In English, this kind of variable is sometimes referred to as a bound variable. In this study, the dependent variable that is being investigated is the longevity of family businesses (Y). In general, mediating factors are those that contribute to the formation of an indirect connection between the variables that are dependent and those that are independent, but which are difficult to measure and see. According to Sugiyono (2012), a third variable, which is referred to as the mediation variable, is placed in between the two variables in order to prevent the independent variable from having an instantaneous influence on the change of the dependent variable. Within the scope of this investigation, the size of the firm (Z) served as the mediating variable.

RESULT AND DISCUSSION

Descriptive Analysis

The individuals who are employed by the company in a variety of positions, ranging from entry-level workers to commissioners, are referred to as respondents. Respondents are members of the respondent's immediate family. What are the locations of the enterprises that specialize in traditional medicine and have been in operation for a length of time that ranges from one year to more than 10 years? Traditional medicine micro enterprises (UMOT), traditional medicine small enterprises (UKOT), and traditional medicine industries (IOT) are the three separate categories that may be used to categorize these specific firms. According to the thorough statistical description, the information that is shown in table 2 comes from the respondent's profile, which is the source of the information.

Table 3. Description of Statistics

No.	Demographics	Description	sum	%
1	Gender	Man	32	58%

		Woman	23	42%
2	Age	17 to 25 years old 26 to 34 years old 35 to 43 years old 44 to 50 Years >51 Years	15 14 13 5 8	27% 25% 24% 9% 15%
3 4	Position	Staff SPV – Coordinator Manager Senior Manager Director Commissioner SMA - D3 S1 S2	21 2 9 1 15 7 22 28 5	38% 4% 16% 2% 27% 13% 40% 51% 9%
5	Size	IoT UKOT UMOT	9 41 5	16% 75% 9%

6	Relationship	Child Brothers and Sisters Cousin -Brother-in Law -Son-in-Law Husband and Wife Parents	12 7 20 12 4	22% 13% 36% 22% 7%
	Total		55	100%

Conclusion

Every organization faces a genuine risk to its future if it is unable to successfully manage its corporate governance. Companies that have effective corporate governance that is founded on the core values of integrity and trust (reputational value) will have a competitive advantage in attracting and retaining talent as well as generating positive reactions in the marketplace. If you have a reputation for ethical behavior in today's marketplace, it not only leads to customer loyalty but also leads to employee loyalty. By adhering to a set of principles and best practices, it is possible to create effective corporate governance. The method in which businesses run their operations, as well as the degree of justice, honesty, and integrity that they exhibit, are vitally important. To continue existing and expanding, businesses need to generate profits; yet, the pursuit of profits must be conducted in a manner that is consistent with ethical standards. The adoption of policies by businesses should include provisions for environmental preservation, whistle blowing, ethical training programs, and other such initiatives. These kinds of compliance measures contribute to the development and construction of a company's image and reputation, as well as to the acquisition of consumer loyalty and trust, and to the enhancement of staff dedication. Instilling confidence is one of the ways that ethical compliance methods aid to stability and growth. Management, leadership, and administration are all fundamentally ethical activities. Establishing a sequence of practical answers that are dependent on the constant application of fundamental values and principles, as well as a commitment to ethical corporate activity, is the primary objective of the virtues in governance. The cultivation of virtues is a potent tool for achieving personal growth and bringing about societal change. The fact that it makes such a powerful appeal to reason allows it to dissipate emotions such as pride, prejudice, and self-interest, and it also serves as a civilizing force in the process of bringing about justice.

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