

## **Yuba Raj Khatiwada: Business ethics for a prosperous Nepal**

Remarks by Dr Yuba Raj Khatiwada, Governor of the Central Bank of Nepal, at the programme on “Business ethics for a prosperous Nepal”, organized by the World Forum for Ethics in Business, Kathmandu, 17 January 2014.

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Rt. Hon’ble Chairman of Council of Ministers

His Holiness Sri Sri Ravi Shanker jee,

Distinguished Participants, Ladies and gentlemen

Let me thank the organizers for rendering me the honour to speak on ethics in

business amid this high profile gathering in the presence of Sri Sri Ravi Shanker jee. As I stand to speak on this topic, we have a question to ourselves as to whether we can really apply in our practical life the words we speak and hear at this event here, and adhere to the noble principles and values raised in this discourse.

We understand that business ethics are moral principles that guide the way a business behaves. Acting in an ethical way involves distinguishing between “right” and “wrong” and then making the “right” choice. While it is relatively easy to identify unethical business practices, it is not always easy to create similar hard- and-fast definitions of good ethical practice.

Making money is not unethical, but doing the same in an immoral way is unethical. A business company must make a profit for competitive return to its shareholders’ capital and treat its customers, employees and other stakeholders fairly. Strong returns for shareholders capital should not be achieved at the expense of social, environmental and moral considerations. Indeed a business can thrive in the long-term only if it also takes into account the needs of other stakeholders such as governments, employees, suppliers, communities and customers. Further, any business should minimize any harm to the environment and work in a way that does not damage the communities in which it operates.

In the present day world, many companies maximize profits unethically via unhealthy marketing, slashing employee expenses, lowering product quality or impacting the environment negatively. Use of violence, sex, and other unethical means to draw attention to a product or service is an example of unhealthy marketing. Such unethical business practices can lead to smeared public relations and a loss of trust and respect to business people from the consumers.

Distinguished Participants,

As we have witnessed the birth of new entrepreneurial and so called knowledge based economic age, we have also seen a growing moral and spiritual problem of disconnectedness. While globalization has made the world smaller, and rapid expansion in transportation and communication technology has connected people from around the world, it has also accelerated a detachment of business entities from their community, society, and nation. This is particularly true with the multinational companies where the intense pressure to maximize shareholders’ wealth disconnects the firm from its non-business stakeholders. The dominance of capital over labor has generated an increasing tension and disconnect between labor and capital which has undermined the virtue of justice, loyalty and trust. Practice of using human resource in an inhuman way, lack of safety at work, weak social security, and outsourcing and bogus contract in labour market are some of the examples in this regard. With little loyalty to the company, employees feel disconnected from their own company which damages the relationship between labour and capital. Due to this, industrial relation has worsened and factor productivity has often been adversely affected.

We know that business ethics of today has to be broadly viewed from free market approach which is based on the premise that the economy works best when it is left to its own course. For this thought, profit is the invisible hand which best allocates resources and produces most efficient results. But we have observed that while maximizing wealth through profit accumulation, ethical and moral standards are often undermined, and norms are violated. Although the current financial crisis has given a setback to the free market notion and reestablished the role of the state, government regulations are, for the most part, viewed as constraining growth and adding unnecessary costs. This notion has enhanced the disconnection between private sector led economic growth and justice, equality and mass wellbeing.

Empirical studies show that companies with better codes of business ethics and conduct produce an above-average performance when measured against a similar group without codes. However, while the link between ethics and performance is certainly found strong, that does not prove that one causes the other. It might be the case that high-performing companies adopt codes of ethics rather than the other way round. Either way, by strongly suggesting that there is no inherent contradiction between being good and doing well, research findings signal to a shift of debate on ethics to more productive terrain i.e. having a code of business ethics might be one hallmark of a well-managed and sustainable company rather than simply a waste of shareholders' money.

Distinguished participants,

Let me briefly touch upon the financial industry while talking ethics in business. Financial services are rapidly expanding over years due to the financialization of economic activities, larger global economic integration, extended use of information technology, and liberalization of foreign exchange regimes. Although this industry is highly regulated, ethical lapses do occur, and there are reasons why these misdeeds may happen. First, self-interest sometimes translates into greed and selfishness. This greed becomes a kind of accumulation fever and if accumulation becomes the addiction, there's no end of it. Second, we too often reduce everything to an economic entity and say that the fundamental purpose of a business is to make money, maximize profit, or "maximize shareholder value", or something like that.

The recent financial crises have revealed that the elements of greed, followed by unethical practices, and excessive risk taking unobserved by the regulators have been instrumental to destabilize the global financial system and a lot of question has been raised on the efficiency, rationality, and morality of those involved in financial services. The professional ethics of the board members, senior executives, supervisors, valuers, surveyors, auditors, rating agencies, brokers, and market makers relating to financial institutions and services has often come to question following the systemic failure of the financial service industry in the recent past. As legal provisions are never enough in order to fully address unethical practices, professional ethics has to be maintained if a socially responsible financial industry is to foster.

Distinguished participants, ladies and gentlemen,

While we are talking about business ethics for a prosperous Nepal, we have to think of happiness, dignity, wellbeing, and an enlightened citizenry. Prosperity necessitates economic development which comes from economic growth and a fair distribution of income, assets, and opportunities. High economic growth requires investment; and in a country like ours, we need a lot of foreign investment. If there is an unethical practice in the judiciary, in the government, and in the professional jobs like project appraising, accounting, auditing, rating, valuing, surveying or agency functioning, it would be difficult to mobilize foreign resources for higher economic growth. Even international trade can be adversely affected if unethical means are applied to produce goods and services meant for exports. Overall, prosperity earned by unethical means would fall short of happiness and social justice.

Let me conclude by saying that doing socially responsible business leads toward ethical business practices. Doing things legally is necessary but not sufficient for such business

practice. We often equate moral behavior with legal behavior; but even if an action may not be illegal, it still may not be a moral one. Also, unethical business practice can trigger on the demands of the clients or stakeholders, as sometimes the push to act unethically comes from them. Often clients demand forged bills of payments, overvaluation of their assets for collateral against loans from banks, manipulating survey of insurance claim; window dressed balance sheets of companies to borrow from banks, etc. And, service providers are compelled to do the same, or else, financial services executives feel that adhering to ethical standards inhibits career progression at their company. However, this situation arises only when we are marred by unethical business thinking everywhere. Events like this are there to change such an environment.

Finally, I thank the organizers for having commenced such a useful discussion.

Thank you very much.