A Study on the Back Ground Study of Ethical Practices in MMSMEs

M Hamsalekha
Assistant Professor Sri Venkatesa Perumal College of Engineering & Technology, Puttur, Chittoor District, ‘Andhra Pradesh, India

Abstract: In a developing economy like India, MSMEs play tremendous role in reengineering the socio-economic landscape of the country. These enterprises largely represent a stage in industrial transition from traditional to modern technology. Most of these MSMEs use simple skills and machinery as well as local raw materials and technology. MSMEs are vital in developing Andhra Pradesh State economy for the following reasons: social and political role in local employment creation, balanced resources utilization, income generation, utilization of local technology and raw materials and in helping to promote change in a gradual and peaceful manner. MSMEs are known as a catalyst for the growth productivity and competitiveness of the economy. Not only are they the seedbed for wealth creation, employment generation and poverty reduction, they have been recognized as critical breeding and nurturing grounds for domestic entrepreneurial capacities, technical skills, technological innovativeness and managerial competencies for the development of a vibrant and productive economy.

Key words: Ethical Practices, Micro, Small and Medium Enterprises, Indian Economy

I. INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MMSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) are two national heritages of India. One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans. KVI today represent an exquisite, heritage product, which is 'ethnic' as well as ethical. It has a potentially strong clientele among the middle and upper echelons of the society. Coir Industry is an agro-based traditional industry, which originated in the state of Kerala and proliferated to the other coconut producing states like Tamil Nadu, Karnataka, Andhra Pradesh, Orissa, West Bengal, Maharashtra, Assam, Tripura, etc. It is an export oriented industry and having greater potential to enhance exports by value addition through technological interventions and diversified products like Coir Geo textiles etc. The acceptability of Coir products has increased rapidly due to its 'environment friendly' image.

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises. The Micro; Small and Medium Enterprises Development (MSMED) Act was notified in 2006 to address policy issues affecting MMSMEs as well as the coverage and investment ceiling of the sector. The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

II. BACK GROUND OF THE STUDY

A lot of literature on business ethics has been developed and is still developing. In recent years, increasing attention has been given to the concept of business ethics as a postulate for ethical behavior of business and as a basis for good
corporate citizenship, there is insistence that business can and should act in a manner that respects the legitimate goals and demands of all stakeholders. However, the scholarly interest has so far been limited to ethical study and exploration on large corporations. Authors argue that findings based on the practices of large corporations have little applicability in the small scale enterprises due to their unique financial circumstances and sole ownership, especially for the startups. This paper argues that since many of the ethical principles are centered on developed countries. This paper sees a need to encourage toward putting up finding on ethics that do exist in MSMEs sector in the developing countries. Because, in both developed and developing countries, the government is turning to small and medium scale industries and entrepreneurs, as a means of economic development and a veritable means of solving problems. It is a seedbed of innovations, inventions and employment. SMEs is as old as India and had contributed to the growth of the economy. Presently in India, MSMEs assist in promoting the growth of the country’s economy, hence all the levels of government at different times have policies which promote the growth and nourishment of MSMEs. As ethics been one of the principles that accelerate the development of business. Ethics issue are wide, the author concentrated on ethics that has to do with MSMEs employees and customers.

Objectives of the study:

- To know the ethical values in MSMEs.
- To know to develop ethical policy in MSMEs.
- Theoretical frame work of the study.

This briefing explores what business ethics means for small to medium-sized business enterprises and how they can introduce and support high standards of business practice.

Why think about business ethics?

Few directors of small and medium sized enterprises (MSMEs) will deny the importance of good, trusting Relationships with customers, employees, suppliers’ and the community. The success of their company depends on it. Also, due to requirements higher up supply chains, smaller firms are increasingly asked about their social and environmental credentials during tendering processes with large corporations. MSME owners and managers will also recognize the importance of trust and ethics in business when on the ‘receiving end’ of unethical business practice; for example, when suppliers deliberately do not meet agreed terms and conditions. Owners and managers can often encounter ethical

III. CHALLENGES. EXAMPLES INCLUDE

- Do I meet a deadline with my customer and ship out products even though I know there is a possibility they might be faulty, or do I openly discuss my difficulties with the customer?
- How do I ensure that my employees do their work properly and do the right thing?
- How do I deal with my employees’ desire to balance their work obligations with their personal ones?
- How do I respond when securing an important contract seems to require the payment of a kickback?
- Do I delay payment to suppliers and the Inland Revenue when my cash-flow is currently limited?

The desire to build trusting internal and external relationships, as well as growing pressures from wider society, should lead SME owners and managers to consider to what extent ethical values and principles guide their business behavior. What does ‘doing the right thing’ mean?

IV. ETHICAL VALUES IN MSMES

MSMEs are characterized by informal understandings and shared expectations among the workforce of how businesses are done. Any values and ethical principles will usually be implicit rather than formally expressed through ethics policies, codes and programmes that are familiar in large companies. The ethics of a small organization is typically influenced by the owner manager or managing director. Through their very visible presence, their personal attitudes and behaviors will set the tone of the business and have the potential to signal to employees how seriously ethical behavior is to be taken in the organization. MSMEs are not typically able to devote as many resources to building an ethical workplace culture as larger organizations.

However, there are advantages to having a somewhat more formal ethics policy in place. Firstly, it reinforces and makes explicit the values and principles that are part of the organizational culture, so allowing them to be communicated to stakeholders. Secondly, a policy will provide guidance and support to employees on how they are expected to conduct their business. BOX 1 sets out some benefits of an explicit ethics policy. A policy will provide a context and the vocabulary for Employees to raise any concerns they have with their supervisors or the directors. It will form a framework for management and staff to decide what the “right thing to do” is. How to develop and implement an ethics policy

1. Identify and define core values of the business

An effective ethics policy will be based on a set of values. Values may be thought of as agreed standards of behavior, expressing beliefs about the ‘good’ and the ‘right’ in the context of the organization; they are commonly derived from wider cultural and societal value systems. When identifying the organizations core values, it may help to
think of some values as business values and others as ethical values, although the distinction can be blurred and business and ethical values are often interrelated. Some commonly found values are shown in Figure 1.

In MSMEs, these values will inevitably be influenced by the personal and professional values and principles of BOX 1 or the organization’s key stakeholder groups (i.e. customers, employees, suppliers and contractors, providers of finance and community). A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors. When drawing up a code it is helpful to ask employees about ethical issues that concern them and on which they would like guidance. The code may be titled “The way we work” or “Our values and principles”. Its purpose is two-fold:

a. To make a public statement
b. To provide guidance to staff

A code of ethics cannot cover every situation but should make clear the ‘spirit’ in which business should be done.

2. Draw up a code of ethics

A code of ethics is the main tool for implementing an ethics policy. It translates core values into specific commitments and expected behaviors in relation to the organization’s key stakeholder groups (i.e. customers, employees, suppliers and contractors, providers of finance and community). A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors. When drawing up a code it is helpful to ask employees about ethical issues that concern them and on which they would like guidance. The code may be titled “The way we work” or “Our values and principles”. Its purpose is two-fold:

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3. Embedding the Code

The code needs to be communicated throughout the company. All employees should be made aware of the code, the commitments the organization has made and the ethical behaviors that are expected of them as members of the organization and how they can get support. It will be good practice if owner-managers themselves introduce the code to new employees and remind existing staff of the importance of responsible behavior on a regular basis, e.g. in staff meetings. Reminder communications could include examples of ‘right action’, consequences of ‘wrong’ actions, and dilemmas. Employees should be encouraged to speak to their line managers or the directors if they are unsure about the ‘right’ response in specific situations or if they have concerns over certain decisions and behaviors. Appointing a designated ‘ethics champion’ should also be considered. This may be the board secretary or HR manager or, depending on the size and set-up of the business, a non-executive director or even a person outside the organization. Such person may discuss ethical issues and concerns with the directors, be a contact if an employee wishes to raise concerns or seek guidance outside the line, and monitor the effectiveness of the ethics policy. Owners or senior managers need to be aware that their behavior sets an example to their employees. For a policy to be effective, it is important that they are regarded as people of integrity, adhering to high ethical standards. The same applies for supervisors and line managers, who should be reminded on a regular basis of this responsibility.

V. EXTERNAL STANDARDS AND GUIDELINES

External codes and standards will complement and strengthen the ethics policy and culture of an MSME. Informal and formal professional codes of practice may inform their business practices and greatly enhance the business’s reputation. Some business sectors have launched initiatives that seek to target specific ethical issues endemic in that industry. For instance, in the construction sector, a range of business associations and professional institutions have – in collaboration with civil society organizations - launched an Anti-Corruption Forum to combat bribery and corruption.

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<th>Business values may include:</th>
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VI. CONCLUSION

Finally, there is an array of external ethics standards and guidelines available to companies, which can help identify their ethical commitments, and against which they can measure their ethical performance and make themselves...
accountable. Most of these are primarily designed for large corporations, but some can be easily adjusted to fit the needs of smaller business organizations. An example is the Good Corporation, Standard, which sets out a corporate responsibility framework using a stakeholder approach.

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