

Ethics in Organizations: The Case of Tata Steel

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ABSTRACT

The concern for ethical decision-making among the regulators, social groups and managers has substantially increased since failure of some of the prominent business organizations like Shell and Enron owing to strong social condemn of some of their business practices. This paper reviews literature to address this concern by examining and discussing significant issues of ethical decision making in organizations.

Literature shows that authors have frequently used ethics, morality and values interchangeably in the context of organizational behavior. Simultaneously, the research to examine the linkage of ethical decision-making with other organizational construct is inadequate. This paper tries to fill these gaps by distinguishing ethics, morality and values in organizational context and by developing a comprehensive framework of organizational ethical decision-making and behavior in organizations.

The framework identifies three groups of variables, which significantly influence the ethical decision-making and behavior of individuals in organizations: a) moral intensity, b) intrinsic factors and c) extrinsic factors. The framework is used to analyze the implementation of Code of Conduct at Tata Steel. Based on the case and literature review few propositions are suggested. They explain the linkages of these variables with ethical decision-making could guide future research in this field. The framework will also help practicing managers to concentrate on key organizational issues to sustain long-term interests of the organizations.

Key words: Ethical Decision-making, Ethical Behavior, Organizational Ethics, and Individual Values.

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INTRODUCTION: Man is a social animal. Though rules of nature control humans as they control other living beings, man himself has derived certain principles to govern his own individual and group behavior. These rules, in the form of behavioral standards may differ across cultures and times, but their basic objectives are always mutual existence and peace within the particular community or the social group. By ensuring security and protection of the group these standards helps in the survival of the particular community or a social group and thus its member's. These standards of behavior are called "ethics." Few socio-biologists' (Ayala, 1998) argue that humans have biologically inherited capacity to make ethical judgments by evaluating actions as either good or evil. Internally in an organization, apart from the organizational culture, its top leadership and their ideologies also influence ethical orientation of a people.

As in the case of individuals, organizations irrespective of their size are also monitored and evaluated by a set of ethical standards. Apart from internal ethical code of conduct, external entities like professional and legal bodies, government and other public interests groups influence the norms of behavior for organizations. International bodies like United Nations and other non-government organizations like Amnesty International also influence these norms. They try to govern ethical concerns that are globally important by influencing policies and rules framed by the governments.

VALUES, ETHICS AND MORALITY: Values, ethics and morality as constructs are highly interdependent and interrelated to each other. Though in most instances they are used interchangeably, there is a minor but distinct difference between them. Ethics is defined as that which constitutes good and bad human conduct (Barry, 1979) and as that which decides what is good and evil, right and wrong and thus what we ought and ought not to do (Beauchamp and Bowie, 1983). The sense of right and wrong is derived by a set of social values through which our actions can be tested. In any social group, the ethical standards are set keeping the values as the base.

The values that are considered important for the existence of the group lead to the particular pattern of behavior among the group member and thus they become standards for future behavior. In course of time few of these standards gain legal significance. Values can be defined as central desires or beliefs regarding final states or desirable conducts that transcend specific situations, guide the choice and evaluation of our decisions and, therefore, of our conducts, becoming an integral part of our way of being and acting to the point of shaping our character (Antonio Argandoña, 2003). Values are normative: they tell us how we should behave – although they are often presented in positive terms. Values are the choices that an individual make; choice which he or she perceive, will enhance the quality of his or her existence. Ethical values are the set of values which are inline with the social norms and helps in the existence of the larger community.

Values can be classified on different criteria, primarily as terminal and instrumental values. Terminal values are desired simply for what they are, whereas, instrumental values are means to achieve the former. For example, honesty can be a terminal value by itself or an instrument to achieve another value - trust.

Though moral and ethics are two different constructs, they are highly interdependent on each other. Since many authors have used the terms morality and ethics interchangeably, the effort to distinguish them becomes more difficult. Many have stated that ethics is the study of morality, where morality is moral judgments, standards and rules of conduct. Morality is considered to be the method for evaluating human conduct in terms of a system of ideas and practices of a given society, class or social group. Morals consist of or are concerned with the judgment of the goodness or badness of human action and character, whereas ethics is defined as the study of the general nature of morals and of the specific moral choices to be made by a person. Lewis (1985) defined ethics as comprising the rules, standards, principles, or codes giving guidelines for morally right behavior and truthfulness in specific situations.

ORGANIZATIONS AND ETHICS: As in other social entities, ethics are inevitable in organizations. Research has already shown that ethics do pay (Hosmer, 1994). Since unethical practices cost industries billions of dollars a year (Jones and Kavanagh, 1997) and damage the images of corporations emphasis on ethical behavior in organizations has increased over the recent years (Trevino, 1986).

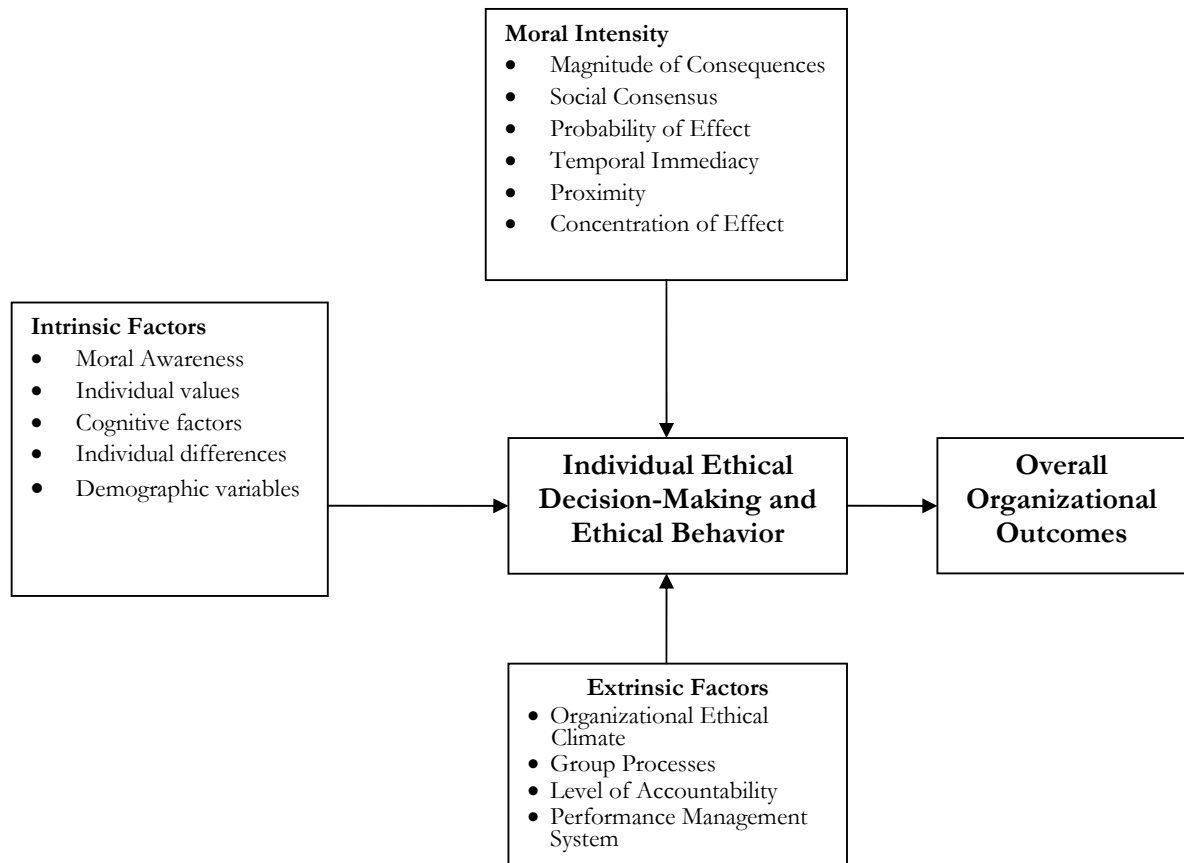
Societal expectations and pressures from legal and professional bodies have forced organizations to be more concerned towards their social responsibilities and ethical practices. For example in mid 1990's Shell faced one of its worst public relations nightmare due to its unethical business practices in Nigeria and anti-environmental acts in North Atlantic. In 1997 the Financial Times in its annual survey of Europe's most respected companies, identified Shell's ethical problems as the key reason for the company's dramatic drop in ranking. Shell turned upside down in the aftermath of these unfavorable experiences and thus started correcting itself for a sustainable growth. (Donaldson & Dunfee, 1999). Similar to Shell, many organizations whose business practices are perceived to be unethical and their products are considered to be harmful to the consumers (e.g. cigarette) face strong social condemn. Especially in recent corporate history, Enron and Arthur Anderson episode, insists on the importance of ethical practices in business.

Ethical problems are problems of choice; they become problems not because of peoples' tendency to evil, but because of the conflicting nature of standards and interests which are valid in themselves. Problems in ethical decision-making and behavior occurs only when the individual interests and the social norms conflicts with each other. Every organization has its own accountability towards its stakeholders – employees, capital investors, consumers, government, competitors, suppliers, and other community members. In most situations the organizations are able to balance its obligations towards these varied stakeholders. However, sometime conflicts do arise between the interests of two or more stakeholders. In such situations more influential and powerful group could gain precedence over others to protect their own interests. For example, though maximizing financial returns is an organization's obligation towards its shareholders, it could be at the cost of ecological system or legal business practices. Managers under these situations face the dilemma of protecting long-term interests of the organizations and short-term profits. Recent thrust on high output driven performance and reward linkages in organizations is driving to short-term interests. It might adversely affect the adherence to ethical norms in organizations.

In order to ensure ethical business practices of an organization, it is important to ensure ethical orientation among the people who own, manage, and work for it. Adopting proper structures and practices could ensure it. Structure, policies and practices of an organization influence ethical behavior through flow of communication, reinforcements for ethical behavior etc. Various successful organizations encompass ethical conduct as a critical measure in performance evaluations and compensation. Jack Welch, one of the successful CEO's of GE, insist that the leaders of his organization should be oriented towards the organizational value more than being highly results oriented. He rated GE's top-level managers not only on their performance against targets but also the extent to which they "lived" GE values.

Though concern for morality in business and other organizations, is a growing area of academic inquiry and professional practice, there are many misconceptions related to the aims of those who pursue the subject and to its relevance for managers (Maclagan, 1998). According to Stark (1993), managers are not hostile to the idea of business ethics but they might consider it to be irrelevant. For example, financial performance might overweight ethical standards to reflect high short-term performance measures. It is important to examine how organizational variables instigate managers to consider short-term performance measures while ignoring the concern for ethics. Such examination of organizational structural characteristics and processes that influence ethical decision-making and behavior would make the issue relevant for managers. To extend this stream of inquiry, researches in the area of ethical decision making and its determinants in organizations have been carried out in the recent decades (e.g., Trevino & Youngblood, 1990; Kohlberg, 1984; Witkin and Goodenough, 1977; Blasi, 1980). These researches are based on different models of organizational ethical decision-making and behavior (Bommer et al., 1987; Dubinsky and Loken 1989; Ferrell and Gresham, 1985; Ferrel, Gresham and Fraedrich, 1989; Hunt and Vitell, 1986; Jones, 1991; Trevino, 1986; Zey-Ferrell and Ferrell, 1982; Danielle Beu and Ronald Buckley, 2001; Keith et al., 2001). Yet, these frameworks have not been able to guide managers adequately owing to the complexity of issues. The issue-contingent model of Jones (1991) synthesized ideas and constructs from eight previous models, as well as a new construct called moral intensity. According to this model, characteristics of the moral issue interact with individual and organizational attributes to influence ethical decision-making. This implies that moral intensity (characteristics of the moral issue itself) is a strong moderator in the ethical decision making process. In this paper authors have developed a simpler

framework to explain the ethical decision-making and behavior in organizations to guide managers and future research. Based on the literature, special attention is given to organization and management implications of different factors in terms of applications on those ethical fronts.



ETHICAL DECISION-MAKING AND BEHAVIOR IN ORGANIZATIONS: A CONTINGENCY FRAMEWORK

The above framework suggests that ethical decision-making and behavior of individuals in the organization is influenced by various factors which can be classified into 3 major heading namely: A) Intrinsic variables, B) Extrinsic variables and C) Moral issue related variables (Moral Intensity).

INDIVIDUAL ETHICAL DECISION MAKING AND BEHAVIOR: Ethical decisions and behavior of managers are those decisions and behavior that are both legal and morally acceptable to employees and other stakeholders. Though an ethical decision does not necessarily always lead to an ethical behavior, ethical behavior is preceded by an ethical decision-making. The ethical decision-making is influenced by moral reasoning (Trevino, 1986), intentions and stakes of decision-makers (Ajzen & Fishbein, 1977). Ajzen & Fishbein (1977) found that intentions are good predictors of behavior in high involvement situations such as ethical dilemma.

MORAL INTENSITY: Moral intensity is the characteristics of the moral issue itself. It is a major factor in influencing the ethical awareness, ethical decision-making and behavior of the employees (Jones, 1991). Every ethical issue can be represented in terms of its moral intensity, a construct that includes six components: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity and concentration of effect.

Magnitude of consequences: Magnitude of consequences of the moral issue is the sum of the harms (or benefits) done to victims (or beneficiaries) of the moral act in question.

Fritzsche and Becker (1983) argued that when moral dilemmas are faced, ethical behavior is more likely to be prompted by serious consequences than by modest consequences.

Social consensus: Social consensus of the moral issue is the degree of social agreement that a proposed act is evil (or good). It signifies the social agreement over individuals' behavior as either appropriate or not. A high degree of social consensus reduces the ambiguity while making a choice and thus leading to ethical decision-making.

The probability of effect: The probability of effect is a joint function of the probability that the unethical choices will get detected and they will actually cause harm (benefit). In countries like India where legal process is complex and time consuming, the probability of actual harm is significantly reduced in many situations. Consequently, violation of law has been frequent in organizations. However, heightened activity of social groups and media has increased the probability of harm out of unethical choices in recent past. Consequently, there is an increased concern about ethical choices in organizations.

Temporal immediacy: Temporal immediacy is the length of time between the present and the onset of consequences of the moral act in question (shorter length of time implies greater immediacy). The increased competition and concern for performance have been driving managers towards short-term orientation. Consequently, managers may choose unethical choices if the positive outcome of such decisions are significant and quick while the possible negative outcome could take longer time.

Proximity: Proximity is the feeling of nearness (social, cultural, psychological, or physical) that the moral agent has for victims (beneficiaries) of the evil (beneficial) activities in question. Increased proximity enhances the concern for such people in the managerial decision-making. The concern for people in the organization and its stakeholders is found to be higher among managers who more committed to their profession and the organization (Lee, 2002). The concern for ethical decision-making would require Human Resource Managers to find ways to get managers better committed.

Concentration of effect: The concentration of effect is an inverse function of the number of people affected by an act of given magnitude. The issues that affect larger community get the social and other such group activated. Hence, managers may ignore immediate returns in favour of ethics in their decision-making when the concentration of effects is high.

The above components of the moral issue are expected to have interactive effects. Moral intensity is expected to increase if there is an increase in any one (or more) of its above components. Researchers have demonstrated that perceived moral intensity influences ethical perceptions and intentions (Harrington, 1997; Morris and McDonald, 1995; Singer, 1996; Robbin and Forrest, 1996; Singer and Singer, 1997; Singhapakdi et al., 1999; Singhapakdi et al., 1996b).

INTRINSIC FACTORS: These are the factors that are part of the individual himself. They can be moral awareness, predispositions, personality traits, and other individuals' acquired qualities.

Moral awareness: Awareness of the ethical issue is the major step in the decision-making that leads to the ethical choices and behavior. Bounded Personal Ethics Model by Murnighan et al., (2001) suggest that people are influenced both by concern for ethics and self-interest. Lack of awareness of ethical nature of their action can lead to self-interested behavior. Frequently, the consequences of decisions do have ethical implications which may not be immediately obvious. Under such conditions, managerial choices may be driven by considerations other than ethics. Once ethical values have been raised to the level of awareness, they will be a significant force in an individual's decision making. Awareness is the critical casual antecedent of ethical behavior.

Hence, organizations could improve the concern for ethics by increasing moral awareness through interventions such as circulation of code-of-ethics. Seminars, talks, conferences and other socialization techniques could enhance the moral awareness and thus the concern for ethics.

Individual values: Individual values strongly influence choices of managers. They manifest themselves into interests and motives and thus determine one's behavior. In organizations problems arise, when individual values and the organization's ethics differ and contradict

each other. The intensity of the problem can vary depending upon how strong the individual's values are and what are the consequences of compliance or non-compliance of the organizational standards. In most cases individual values have greater influence on the decision-making than the organizational ethical standards. Hence, improved concern to ethics in decision-making requires alignment of individual values with organizational ethics. This could be achieved through appropriate staffing and value based selection system. Organizations are likely to have increasing concern for individual values in the recruitment and selection process with the increasing concern for ethics. Organizations may also be required to develop mechanisms to ensure adequate consequences of compliances and non-compliances of ethics in decision-making by managers.

Concern for Individual Values	Compliance to Organizational Ethics	
	Low	High
High	Self-interested behaviour	Value conflict/identification
Low	Independence	

The above framework is to explain the interaction between individual values and organizational ethics and the possible consequences. The framework proposes that differences in individual and the organizational value can result in various outcomes. Value conflict may arise when both individual and organizational values are very strong. There may also be strong identification of managers with the organization when strong individual values and high ethical standards of the organization are in alignment.

On the other hand when both entities have weaker value system, there will be no significant consequence and there will be abundant independence between the two. Human resource managers will have to worry about alignment of individual values with organizational ethics with the rising concern for ethics in the society.

Cognitive factors: Cognition significantly determines the human behavior. Cognitive factors like cognitive moral development, perceived self-efficacy are studied extensively in researches on ethical behavior and ethical decision-making.

Cognitive moral development is one of the important factors in ethical decision-making (Wimbush, 1999; Higgins, Power, and Kohlberg, 1984; Trevino and Youndblood, 1990; Rest, 1979 etc.). Cognitive moral development was developed conceptually and tested empirically by Kohlberg (1984, 1976, 1973, and 1969) as a way to describe and explain the ethical decision-making processes of individuals. According to Kohlberg individuals proceed sequentially through three levels of development – pre-conventional, conventional and post-conventional or principled level.

In the pre-conventional level of cognitive development, the individual's decisions are based purely on self-interest without taking into consideration of others. At this level, individuals often act in order to avoid punishment and even if they take ethical decisions they result due to enlightened self interest rather than altruistic motives. At the conventional level, the individuals recognizes the potential impact of his or her decisions on others and thus rules, procedures, and laws serve the basis for his or her decision-making. The People in third stage of cognitive moral development post-conventional level have high orientation towards morality and their moral behavior is directed by internalized principles. The individual determines appropriate conduct based on the duty.

According to Wimbush (1999), employees in the third level continue to take ethical decisions and act ethically independent of other influencing factors such as organizations ethical climate and the reinforcements from the supervisors. Apart from being highly ethical in their decisions and behavior, individuals at the third level of moral development may try to stop others from engaging in unethical conduct or resort to whistle blowing if unethical actions occur (Trevino, 1986; Near & Miceli, 1975).

Self-efficacy, the other cognitive variable influencing ethical decision-making and behavior, refers to confidence in one's coping ability across a wide range of situations. Cognitive consistency theory suggests that ethical behavior is more consistent with a self-perception of high worth.

Individual differences: The multiple-influence perspective suggests that individual differences as one of the key factors in ethical decision-making and behavior (Trevino, 1986). Research has shown that locus of control influences ethical decision making directly and indirectly through outcome expectancies (Blasi, 1980; Trevino & Youngblood, 1990). According to Dozier & Miceli (1985) locus of control is directly related to moral behavior, such as whistle blowing.

Among individual differences, achievement orientation is an important variable in ethical decision-making and behavior (Roozen et al, 2001). Employees with high ambition were significantly lower on their ethical profile than others (Roozen et al, 2001; Finegan, 1994; Johnson 1981). According to Bounded Ethics Model, there is a possibility that ambitious or achievement oriented individuals' tend to focus more on their goals and thus can overlook the ethical aspects of their decisions. Similarly, managers with Type A personality are more likely to engage in unethical behavior (Friedman and Rosenman, 1974).

Type A personality managers are high in their achievement orientation. They get aggressively involved in a chronic, incessant struggle to achieve more in less time, and if required to do so, against opposing efforts of other things or other persons. Perry et al. (1990) found that, college students scoring high in Type A behavior were more likely to engage in unethical behavior when a) they were given the opportunity to do so and b) their expectations could not be met by simply putting forth great effort. Buckley, Wiese and Harvey (1998) found that the aggression and hostility components of Type A personality were strong predictors of a propensity to engage in unethical behavior. Similarly Machiavellians are proved to be highly unethical (Christie and Geis, 1970; Hegarty and Sims, 1978, 1979).

Individual variables like gender, education level, work experience and designation are related to ethical decision-making and behavior. Most findings suggest that females are more predisposed to ethical situations than males (Clark and Barry, 1997; Weeks et al, 1999; Singhapakdi et al. 1996a; Charlotte et al., 2001). On the other hand there are also contradictory findings, which find no relationship between the two (Robin and Babin, 1997). Another research by Fritzsche and Becker (1988) found that male marketing managers are less likely to pay a bribe than their female counterparts. However, he found that men are more likely to ask for a bribe than women. Schminke (1997) reports that male and female managers do not differ on their underlying ethical models, but differ in the manner in which they evaluate others. Earlier studies indicate that women enter the employment situation with more positive expectation of ethics than males (Schminke, 1997) Apart from being highly ethically oriented females are more willing than males to participate in whistle blowing in their place of employment (Sims and Keenan, 1998).

Roozen et al. (2001) found that stage in the career of the employee is a significant explanatory factor of ethical decision-making. Employees who are young with relatively low income, limited work experience and a low level of responsibility in the company are significantly more ethical than elderly employees with high work experience, income and responsibility. The result is of special significance as most of the key strategic decisions are taken at higher levels. This finding insists on the need to sensitize people on higher career stages about the implications of ethical decisions towards the organizations long term performance when compared to the short term financial performance.

ORGANIZATIONAL VARIABLES: The major organizational variables identified in researches, which play a major role in ethical decision making and behavior are organizational ethical climate, organizational group processes, the level of accountability among the employees and performance management system. These organizational variables are highly interrelated and exert influence on each other.

Organizational ethical climate: Organizational ethical climate can be defined as the shared perceptions of what is ethically correct behavior and how ethical issues should be handled (Victor and Cullen, 1987). It is a mix of formal and informal policies of the organization and individual ethical values of managers.

Ethical code of conduct of an organization and supervisory influence are among the important contributing factors to organizational ethical climate (Wotruba et al., 2001; Wimbush, 1999; Wimbush & Shepard 1994, Cohen 1993). Ethical climate is a powerful moderating variable on the various relationships between the ethics related variables. Shared beliefs can impart both direct and indirect pressures in the form of reinforcements and role models among employees.

According to Weaver et al. (1999) formal corporate ethics programs are very useful in creating a positive ethical climate in an organization, which typically include some or all of the following elements: 1) formal ethics codes, which articulate a firm's expectations regarding ethics, (2) ethics committees charged with developing ethics policies, evaluating company or employee actions, and/or investigating and adjudicating policy violations, (3) ethics communication systems providing a means for employees to report abuses or obtain guidance, (4) ethics officers or ombudspersons charged with coordinating policies, providing ethics education, or investigating allegations, (5) ethics training programs, aimed at helping employees to recognize and respond to ethical issues, and (6) disciplinary processes to address unethical behavior.

Among different factors of the organizational ethical climate, ethics code contributes significantly towards institutionalizing ethics in organizations (Weber, 1981). Codes of ethics serve three major purposes in organizations namely: a) demonstrating a concern for ethics by the organization, b) transmitting ethical values of the organization to its members, and c) impacting the ethical behavior of those members (Wotruba et al., 2001). Researches suggest that employees must be familiar with the code's contents before it will impact their ethical awareness and behavior (Dean 1992; Sims, 1991). They have also empirically proved that, among managers; 1) the perceived usefulness of ethics codes is positively related to the degree of familiarity with the code, and 2) perceived ethical climate is positively related to the code's perceived usefulness. These researches reveal the role of ethical code of conduct in establishing a positive ethical climate in organizations. Familiarizing ethical code of conduct among the employees will also help to create sufficient awareness on the ethical issues and thus minimize ambiguities in decision making situations.

Organizational group processes: Supervisors muster a large amount of control over subordinates' behavior and well being (Wimbush, 1999), especially in traditional organizations' where the structure is very tall. In bureaucratic and traditional organizations, because of the control supervisors wield over their subordinates, and the respect subordinates may have for supervisors, subordinates might look upon their supervisors as role models of acceptable behavior (Mischel, 1979; Newstrom and Ruch, 1975). Consequently, group processes that involve managers and their superiors influence the implementation of code of ethics and decision-making in organizations.

In some situations supervisory influence is found to be highly effective than other organizational variables. Often even in the presence of an ethics policy, subordinates do what they see their supervisors would like, rather than to adhere to ethics policy (Andrews, 1989). Wimbush (1999) argued that supervisors can play a major role in influencing the ethical behavior of the employees who are in their first and second stages of cognitive moral development. For these individuals their observations about the ethical climate of the work group and personal ethics of the supervisor are critical because they are still developing a sense of what is right and wrong. Similarly when situations are ambiguous, these employees may engage in feedback seeking behavior (Ashford and Cummings, 1983). These findings insist on the need to increase training on ethics for managers and subordinates and to hold managers more accountable for ethical behavior (Gupta and Sulaiman, 1996; Jones and Kavanagh, 1996) and increase socialization between superiors and subordinates.

Group processes that facilitate peers to share ethical concerns in decisions and allow transparency in information instigate ethical decision-making. The influence and monitoring of peers into the ethics of decision-making is found to be extremely effective. However, it requires significant efforts to create such openness.

Accountability: According to Daniel Beu and Ronald Buckley (2001), accountability can be a significant factor contributing to ethical decision-making and behavior. Accountability refers to the defending or justifying one's conduct to an audience that has reward or sanction authority, and where rewards and sanctions are perceived to be contingent upon audience evaluation of

such conduct (Tetlock, 1985, 1992). According to them one way to insure that employees behave appropriately is for the organization to require that the employees be held accountable for their actions. In an accountability situation, an employee is in a social context and his/her behavior is observed and evaluated by an audience and compared to some standard of expectation (Frink and Klimoski, 1998).

The level of accountability is found to be high in social relationships that are strong and multiplex. Strong relationships are based on cooperation, trust, intimacy, empathy, reciprocity and emotional intensity (Granovetter, 1973). Multiplex is the degree to which two actors are linked by greater than one type of relationships (Burt, 1983). Strong and multiplex relationships may outweigh organizational norms (Brass et al., 1998). So the employee's positive relationship with the superior and his perceived accountability towards the supervisor can be a major control mechanism in the employee's ethical decision-making and behavior. Thus developing high quality relationships and increasing employee understanding of what others expect from them in terms of ethical behavior should lead to internalization, compliance or conformity to expectations (Daniel Beu and Ronald Buckley 2001).

Performance management system: Performance management system that is output oriented instigates short-term orientation among managers. Their concern for annual or half-yearly performance owing to its strong linkage with financial and other rewards instigates managers to ignore ethical concerns to achieve output whenever such dilemma is encountered. While the consequences of output are experienced by managers immediately, the consequences of lack of ethics in decision-making are both uncertain and delayed. Hence, the balance between processes, output and ethical concerns in performance management system is likely to lead to ethical decision-making in organizations.

Overall Organizational Outcomes: The expectations on organizations for socially responsible behavior and ethical business practices have been consistently increasing since last decade. Organizations are bound to ensure ethical decision making and behavior among its employees for its long-term sustainability. Though ethical practices may not lead to immediate and tangible results, in the long run they help to sustain society's good will and thus maintain a positive image among its consumers. Organizations will have to restructure themselves, their processes and socialization mechanism to instigate ethics in decision-making.

METHODOLOGY

The study of ethics in the context of organization is a complex phenomenon where multiple subjective realities coexist. Such ontological context suggests the adoption of qualitative research (Lee, 1999). Further, epistemologically, researchers need to observe the phenomena to understand the dynamics of behaviour of managers in organizations, suggesting to adopt qualitative research route through case method (Eisenhardt, 1989).

The resultant theory through such case research provides novelty and testability (Eisenhardt, 1989). However, qualitative research through case method poses many challenges for theory building. The foremost of them are the validity of data and filtering out the bias of researcher (Maheshwari and Ahlstrom, 2004). These challenges could be overcome by collection and interpretation of data through multiple sources. In the study, eight in-depth unstructured interviews were conducted with the CEO, Ethical Counsellor, and other senior managers of the company. Based on the case study and the review of the literature, we developed nine propositions which were discussed in two Focused Group Discussions. These Focused Group Discussions helped the authors to validate and sharpen them.

IMPLEMENTATION OF TATA CODE OF CONDUCT AT TATA STEEL

Nearly a century old Tata Iron and Steel Company Ltd. (TISCO) more popularly known as Tata Steel is one of the India's oldest companies. Asia's first and India's largest integrated private sector steel company, Tata Steel, would be completing a hundred years of its existence in 2007. A visionary leader - Mr. Jamsetji Tata established it in 1907. Since its inception, the company has focused on customer focus, operational excellence, employee welfare, organizational leadership and social responsibilities and citizenship. Consistent with the thrust on these dimensions, the company is one of the most respected companies in the country for its value based practices ethical and dynamic practices and competitive performance. The name "TATA" has always been synonymous with Trust. The Statement of

Purpose of the Tata group (Tata Steel belongs to this group) explicitly seeks to improve the quality of life in the communities they serve. It says, "*Our heritage of returning to society what we earn evokes Trust among consumers, employees, shareholders and the community. This heritage will be continuously enriched by formalizing the high standards of behaviour expected from employees and companies.*"

The values and principles that had governed the company (and Tata Group) were articulated for the first time in 1998. This year the company formally published its "Code of Conduct." This document was aimed to guide each employee on the values, ethics and business principles (Annexure 1) expected of them. Among other things, the implementation of Tata Code of Conduct was mandatory for relatively autonomous group companies to leverage on "TATA" as a brand. The successful implementation of this code of conduct was not a matter of choice to Tata Steel. One of the senior managers of the company stated:

For us deciding to implement Tata Code of Conduct was easy. We had always believed in ethical practices. However, we had to ensure that every one of more than 50000 employees practiced the Code.

To implement the Code of Conduct, the company created a new position of "Ethics Counsellor" at the senior management level. Ethics Counsellor was internally identified. The person was made to report to the Managing Director of the company for day-to-day functioning. However, the person directly reported to the group headquarters. Ethics Counsellor stated:

The company management encourages me to interact directly with group headquarter. On my part I discuss most of the issues with the MD to facilitate better voluntary implementation of code of conduct by employees.

In every department, one person was identified by the head of the department to additionally look after the implementation of code of conduct in the department. These Ethics Coordinators reported to Ethics Counsellor directly on ethics related matters. However, for other purposes they continued to report to their heads of department. Ethics Coordinators in consultation with the Ethics Counsellor organized large number of awareness programmes every year. Such programmes were extended to other stakeholders like suppliers and dealers of the company.

Having succeeded to create awareness among the employees, the Ethics Counsellor organized nearly 15 awareness programme for the families of the executives. The family members were made to feel proud that one of them was part of a 'value based' organization. The Ethics Counsellor stated:

We realized that it was not adequate to create awareness among the employees alone. Frequently, executives succumb to the temptation of accepting favours owing to unreasonable expectations of family members. Further we also realized that if the families of the employees could take pride in the honesty of Tata Steel employees, they would encourage employees to follow the code of conduct in letter and spirit. Formal control systems to uphold the code-of-conduct do not work owing to lack of direct monitoring mechanisms.

The workshops for the families were primarily restricted to the senior management levels. The Ethics Counsellor stated that this group of employees was more critical for the implementation of the code. "Owing to larger responsibilities, they experience many more temptations to violation of the code", the Ethics Counsellor stated.

Having organized the workshops, the company looked into the possibility of integrating the ethics in the performance management system. One of the Ethics Coordinators was rewarded every month for quality of work. Employees and other stakeholders were rewarded whenever they reported unique incidence of high moral value. However, Tata Steel decided not to make it the part of Performance Appraisal System as the management felt that following the Code was not a matter of discretion. Any proven violation of the Code was viewed seriously. In one such incidence, one of the employees was dismissed from the company for the violation of the code of conduct. The news without mentioning the name of the employees was widely publicized.

The outcome of these efforts was found to be encouraging. One of the executives stated, “I received an honorarium of Rupees 2000 for delivering a lecture in one of the prestigious management institutes. I proactively asked the Ethics Counsellor whether I could accept such money. I did not want to violate the Code of Conduct even by mistake. I strongly believe in the ethics of the Company.”

The executives were extremely happy to realize the advantage of the Code of Conduct in maintaining their relationships with external stakeholders. Managers found it difficult to interact with government officials without arranging any favours to them in the early days after implementing Code of Conduct. However, executives continued to insist the directives of the top management and principles of Code of Conduct. Slowly, the officials realized that the company would continue to follow the Code honestly. They stopped seeking gratifications from the company. One of the managers summarized the issue in following words:

We are willing to provide any information to the officials. We are also willing to wait for clearances and certificates from the government officials. However, we can not favour them. Now these officials respect us for our values and ethics. They treat us differently. I feel better and more comfortable while interacting with external agencies now.

It was observed by the researchers during their interaction with the managers in the company that the employees took pride in their association with a company that believed in the code of conduct that had wide social acceptance. Such pride enhances the commitment of employees (Bhat and Maheshwari, 2004) which influences the performance of the company. It was commonly observed while interviewing some of the retired employees that they all had high respect to the Company and would talk about it for long time. Such behaviour of employees enhances the image of the organization. It adds to the positive response of external stakeholders towards the organization and reduces the transactional cost.

Findings:

The early phase of the implementation of the Code was focused upon enhancing the moral intensity by developing social consensus as issues were also discussed among the family members and suppliers and dealers. The magnitude of consequences of violation of code of conduct was made severe. It shows that increase in moral intensity increases the concern for ethics in decision-making in organizations.

During the study we did not observe impact of achievement orientation of managers on their ethics in decision-making. Similarly, we did not observe incidences to differentiate the concern for Ethics at different levels of the organization.

The case indicates that socialization is likely to improve ethical decision-making in organizations. The organization will benefit significantly by organizing activities to facilitate the socialization of managers. The implementation of Ethics in organizations, would essentially mean that the companies will have to organize many socialization events.

Supervisors at different levels played an important role in the implementation of the code. They facilitated the autonomous working of Ethics Coordinators in their departments. These coordinators were suitably recognized and rewarded for their efforts. Further, supervisors themselves were extremely conscious of the code. They ensured that none of their decisions violated the code.

The suggested model of the paper integrates the variables that were found to be important in the case. It provides levers to managers to manage ethics in decision-making by managers in organizations. The suggested model gives a list of major variables for their relationship with ethical decision-making and behavior. Thus this model can have significant implications in both business and academic arenas.

By identifying the significance of supervisory influence and accountability on the ethical behavior and decision-making, this model insists on the need for high level of commitment among the top level executives towards organizational ethics. By creating such higher commitments, it is very easy to surge the ethical orientation among the lower level employees. Such commitment and orientation towards ethics should be continuously

reinforced using training programs. Appropriate structures and systems facilitate ethical decision making and behavior in organizations.

Human resource management systems such as training to indoctrinate the organizational values and belief, recruitment and performance management need to be aligned to facilitate ethics in decision-making in organizations. Honesty and other values could be tested in personnel selection. The understanding of personality and other casual factors of ethics make it important for managers to adopt suitable selection processes.

The present study highlights the interactive effect of different variables on ethical decision-making and behavior and thus insists on a holistic approach to understand them better. Therefore interactive and moderating effects of different variables on ethical decision-making and behavior should be focused on more. Especially organizational variables like accountability, ethical climate, supervisor and peer influence and organizational code of conduct are highly interrelated to each other, and thus should be treated accordingly for a better understanding of their effect on ethical decision-making and behavior.

During the case study, we could not examine few variables. Yet we developed some propositions based on literature integrating those variables. The table below indicates all the propositions based on the case and literature, as discussed at different places in the paper.

Table 1: Propositions

Propositions based on the case findings and the literature:

P1: Increase in moral intensity is likely to increase the concern for ethics in organizations.

P2: Concern for ethics is likely to increase with the increase in moral awareness.

P3: Socialization in organization is likely to improve ethical decision-making in organizations.

P4: Accountability is likely to be positively related to ethical decision-making and behavior among managers.

P5: Employees with higher organizational responsibilities tend to be more unethical in their decisions than employees with lower responsibilities.

Propositions based on literature alone (we did not find either support or rejection of these propositions in our study):

P6: Managers are likely to be more ethical in their decision-making in post-conventional stage of their cognitive moral development.

P7: Individuals with high self-efficacy are likely to adopt more ethical choices in their decision-making.

P8: High achievement orientation of managers is likely to lead to lack of ethics in decision-making by managers.

P9: Output oriented performance management systems are likely to lead to lack of ethical concerns in decision-making in organizations.

P10: The balance between processes, output and ethical concerns in performance management system is likely to lead to ethical decision-making in organizations.

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Annexure 1: Tata Code of Conduct

1. National Interest
2. Financial Reporting and Records
3. Competition (Support for open market economy)
4. Equal-Opportunities Employer
5. Gifts and Donations (Employees shall neither receive nor offer or make, directly or indirectly, any illegal payments, remuneration, gifts, donations or comparable benefits which are intended to or perceived to obtain business or uncompetitive favours for the conduct of its business)
6. Government Agencies (Not to offer or give any company funds or property as donation to any government agencies or their representatives....)
7. Political Non-Alignment
8. Health, Safety and Environment
9. Quality of Products and Services
10. Corporate Citizenship (Compliance of all relevant laws...and actively assisting in the improvement of the quality of life..)
11. Co-operation of Tata Companies
12. Public Representation of the Company and the Group
13. Third Party Representation
14. Use of the Tata Brand
15. Group Policies
16. Shareholders
17. Ethical Conduct
18. Regulatory Compliance
19. Concurrent Employment
20. Conflict of Interest
21. Securities Transactions and Confidential Information
22. Protecting Company Assets
23. Citizenship
24. Integrity of Data Furnished
25. Reporting Concerns