

# *Business Ethics: The Next Frontier for Globalizing Indian Companies*

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## *Executive Summary*

Nowhere is the fast changing nature of the global business landscape more perceptible than on the ethics front. With a spate of recent unethical behaviours by large corporations in the Western world, especially in USA, their societies have become intolerant to businesses that manifest unethical behaviour. Legal and regulatory frameworks in these countries have been swift to respond through stringent laws such as the Sarbanes Oxley Corporate Reform Act. Consequently, most businesses based in these countries have become extremely risk averse on the ethics front. Few of them would like to have anything to do with any unethical company in any part of the world. This changed mindset has significant ramifications for Indian companies that have global aspirations. No Indian company that hopes to globalize in any manner can afford to ignore these changes sweeping the global business arena on the ethics front.

Business ethics encompasses much more than mere compliance with laws and regulations. It is about every individual in the organization acting ethically, about creating an ethically sound working environment within the organization and about modeling ethical behaviour by leadership at all levels. Research suggests that it makes good long-term business sense to be ethical.

For a company's ethics policy to be successfully implemented, it is essential that:

- The code of ethics is clearly communicated to employees.
- Employees are formally trained in it.
- They are told how to deal with ethical challenges.
- The code is implemented strongly.
- The code is contemporary.
- The company leadership adheres to the highest ethical standards.

When an employee gets no clear answers from the organization while dealing with decisions that have inherent ethical dilemmas, he tends to chart his own course of action by drawing on his intuition, conviction, and beliefs, and assessing the pressures of the situation at hand, putting the organization at considerable risk.

Globalizing Indian companies essentially have two options. One is to sit back and wait for the tightening of regulatory and societal screws on them, forcing them into ethical behaviour in a reactive mode. The other approach is for them to proactively herald the new era of business ethics by becoming torch bearers of the new order of things. It is in the organization's self-interest to take a proactive posture on the ethics issue, and be well-prepared for the shape of things to come. We also show how this can be done and what challenges must be addressed for success on this journey. ♡

### KEY WORDS

**Business Ethics**  
**Globalizing Indian Companies**  
**Leadership**  
**Corporate Social Responsibility**

**B**usiness ethics is now, more than ever, becoming an important requirement for doing business in the global marketplace. With the global business interest in India growing and Indian companies making aggressive moves in the global arena through organic growth, mergers and acquisitions, it is imperative that Indian companies must play – and be seen to be playing – by the rules of the international business world. In a global business scenario that is fast becoming very sensitive to ethical practices and conduct, a company can ignore business ethics only at its own peril. The shape of things to come can be understood by reviewing a recent survey of Global 2000 companies that found that more than 35 per cent of them have ethics officers to enforce ethics and compliance management and promote ethical behaviour in their organizations. Most Fortune 500 companies have set up ethics offices. Research suggests that companies with a clear commitment to ethical conduct outperform those that do not<sup>1,2</sup>.

Many Indian organizations are under enormous pressure to operate, grow, and succeed in a highly competitive and challenging global economy. They routinely deal with other companies in the global marketplace as customers, suppliers, partners or competitors. In such an environment, Indian enterprises — small, medium, and large — that wish to have any role in the international arena, need to have sound ethics and governance policies and procedures in place since global customers, suppliers, and partners are increasingly beginning to demand demonstrable proof that such ethics and governance processes and systems are at work in the companies they associate with in any manner. Just as quality management system certification and capability maturity models (ISO 9001, CMM, etc.) became minimum requirements for establishing credibility of operations of companies during the last two decades, ethics and governance policies and processes are becoming the “next wave” sweeping the global marketplace. Indian organizations that view themselves as players in the global arena must think globally not only in terms of size of operations, quality, cost, and delivery processes, talent as well as best practices; but also in terms of focusing organizational efforts towards conformance to acceptable ethical standards<sup>3,4,5</sup>.

For Indian companies competing with reputed corporations in the global marketplace, sound ethics can build and sustain a powerful positive image. By the same token, the presence of an alert media, and instant com-

munication afforded by the Internet and other recent technologies, ensure that ethics violations get easily and quickly exposed<sup>6</sup>.

The definition of success for all enlightened organizations today includes among other things, ability to build a brand that inspires trust. Increasingly, companies have to earn a solid reputation by employing ethical business practices, if they have to play any role in the global business arena. Additionally, they are expected to create value to society by being socially responsible. Success is no more limited to profit margins and maximization of profit for shareholders. Companies have also realized that they can attract the best talent by being seen as ethical. It is a matter of pride for employees to be associated with such corporations. They feel a greater sense of belonging and loyalty towards such organizations. In short, ensuring ethical practices is increasingly becoming everybody’s business in an organization. High ethical standards have come to be recognized as an asset to the company, and conversely, unethical behaviour, a liability<sup>2</sup>.

In this paper, the authors present an action plan relating to ethics, for those Indian organizations that seek to operate in a globalized world, but which have not yet seriously and formally addressed the issue of business ethics. Based on our experience, this should include a significant majority of Indian companies.

In our experience, many Indian companies tend to look at ethics in an ambiguous manner, often hoping that things will somehow fall into place on the ethics front, and the organization will somehow magically escape any adverse repercussions on the ethics front. Such wishful thinking may well be misplaced in today’s context. Often, there also appears to be hesitancy on the part of managements of companies to address the ethics issue squarely with the seriousness it deserves. In some cases, managements feel that by being role models themselves, the issue of ethical compliance for the organization as a whole will automatically ensue. While this is a necessary pre-condition for ethical behaviour of the organization as a whole, it is not sufficient to guarantee that all employees will manifest ethical behaviour. Our purpose through this article is to direct top management attention to the importance of business ethics for the company as a whole, and galvanize managements into taking concerted steps to intensely address this very vital issue. We suggest that companies stand to gain considerably by proactively moving to-

wards implementing a robust ethics policy to avoid the pitfalls that many companies have experienced in a reactionary mode in various parts of the world, such as companies in the US that were forced over the last few years to implement the guidelines emanating from the Sarbanes Oxley (SOX) Act. Our central message is that proactively positioning themselves as torch-bearers of corporate ethics will yield much better long-term results to the company than to reactively respond after it is warranted by legislation. We also present a roadmap of how this can be done.

A company's approach to ethics and legal compliance management greatly influences the behaviours and attitudes of its employees. Emphasizing mere legal compliance makes little real difference to the company's ethical culture. An approach that is holistic, based on organizational values and self-governance, produces the desired outcomes required to build and sustain an ethical corporate culture.

## THE CONTEXT

As individuals, most people treasure a set of personal core values that are generally in line with time-honoured ethical principles. However, translation of these personal core values to practical situations at work is not automatic, for frequently the situations to which employees are exposed in their work situations are fairly complex from an ethical perspective. Often, the employee may be subjected to various pulls and pressures. Pressures to demonstrate that one is 'in line' with the team, the tacit rule in many organizations of 'do whatever you have to in order to satisfy the client,' a strong obligation to obey the boss's command knowing well that it could sometimes be illegal or unethical, the perception that 'performance at all cost' is what really counts, stiffening competition, pressures to meet sales targets and goals, fighting internal politics, etc., are but a few of the organizational compulsions that force individuals to respond in a variety of ways, often providing justification for taking unethical actions. In these situations, the best possible alternative is not obvious as the situation entails both complexity and ambiguity. How then does one deal with these so-called 'ethical decisions?' Before dealing with the answer to that question, it is important to recognize that ethical decisions 'typically involve choosing between two options: one we know to be right and another we know to be wrong.' Badaracco (1998) suggests that ethical decisions do not

involve choosing between the right versus right options or the wrong versus wrong options. Instead, they involve choosing between the right versus wrong options<sup>7</sup>.

In our discussion of ethics, we specifically exclude many situations which employees may face in their day-to-day work, that while challenging to address, do not deal with fuzzy, gray areas where choices between right and wrong have to be made. Thus for instance, situations dealing with incompetence of a boss or idiosyncrasies emanating out of the peoples' sense of insecurities, egos, etc., are excluded from the scope of our discussions. In managerial roles, there are decisions that are clearly white and others that are clearly black. Here again, there is no ambiguity for the manager. For instance, companies are expected to do all it takes to produce quality products/services, as cost effectively as possible and deliver them responsively on time to chosen customers. These fall in the realm of 'white' areas on the ethics spectrum, and there is no ambiguity for a manager on what needs to be done to navigate through such situations. At the other extreme, there are clearly what may be labeled as 'black' areas, such as trying to get a key technologist of a rival firm killed for gaining competitive advantage, which are illegal, let alone being unethical. Once again, a manager needs no aids to navigate through these 'black' terrains, since any behaviour in the black zone is illegal and unacceptable. The real problems are faced in the gray areas between these two extremes. The fuzzy middle ground is where most managers get stuck, and this is where the company needs to step in through a well-thought-out ethics policy that can provide practical help to the manager. Through several examples in the following, we illustrate the type of pressures that these gray areas could put on managers, particularly those at the middle and the operating levels, unless they have a navigational compass facilitated by the company's ethics policies.

### Case 1

Ashok is the Purchasing Manager in a company. He has to make a choice between three suppliers, and has almost decided on one of them, which he thinks would be in the best interest of the company. He has a son, an avid cricket fan, who has made frantic attempts through his friends to watch a cricket match between India and Australia to be played soon in their city. One of the suppliers who is unlikely to get the order, comes to Ashok and tells him that he has received two 'free' pavilion tickets for the very same

cricket match. The vendor suggests that since both he and his wife have no interest in cricket, they would be happy if Ashok could use those tickets, as otherwise, 'the tickets would go waste.' Should Ashok take these two tickets, and use the opportunity to treat his son to a pavilion view of the match, rubbing shoulders with the game's greats? It is quite possible that the vendor has fabricated the whole story, with an ulterior motive of influencing Ashok to favour his company in the vendor selection process. Since Ashok has a strong personal ethical compass, he could rationalize that the act of accepting the tickets would not influence him in any way in his decision. Watching a cricket match is a personal choice and has nothing to do with his company's work. On the other hand, he should also consider the possibility that his company may later discover that the tickets were gifted by the vendor. What would such a discovery do to Ashok's credibility inside and outside his company? What would it do to his company's reputation of being a fair customer? Either before or during the process of such discovery by his company or others, Ashok may decide to hastily write out a cheque to the vendor, paying him the price of the tickets, to 'keep his conscience clean.' Would that be seen as a cover-up?

#### Case 2

John is the Purchasing Manager, sent overseas to an oriental country to evaluate a vendor for purchase of expensive equipment. During the meetings with the supplier, he is wined and dined, and at the end of a farewell dinner, he is presented with an exotic, priceless piece of art, and told by the CEO of the supplier firm that the gift is being given as 'a token of appreciation' to John. He is requested to accept this gift as a memento of his visit to the vendor's country. He is requested to take this gift home and give it to his wife. On the one hand, John's personal values suggest that he should not accept the expensive gift. On the other hand, John was given some briefing by his friends before he left for his trip, about how big company meetings in oriental countries are conducted and how his not accepting a gift would be seen as an insult. John assesses that the gift could cost in excess of USD 10,000. What should John do?

#### Case 3

Hashim is the Sales Manager of a company and has an important supplier meeting at Indore. He is visiting

Indore for the first time. He has no friends there. His flight gets him to Indore early in the morning while the meeting with the supplier is scheduled at 11 a.m. The supplier has a ten-year relationship with Hashim. The supplier firm's CEO proposes to send his personal Mercedes car to pick Hashim up and bring him to his farm house for a morning of relaxation before the formal meeting. The CEO's argument is that otherwise Hashim would not be able to make it in time for the meeting at the company's Head Office, some 70 km from the Indore Airport. Hashim wonders whether his own company extends similar 'normal courtesies' to its own customers. What should Hashim do? On whom does the onus of ethical behaviour lie? On the person offering these 'normal courtesies,' or on the person receiving them?

#### Case 4

Rashmi is the Sales Manager of a highly respected supplier firm that is seeking a very critical 'make or break' order from one of its important customers. Rashmi is visiting the customer's Purchase Manager, whom she knows for many years. During their meeting, the Purchase Manager gets a call from his CEO, asking him to meet him for a few minutes. Profusely apologizing for having to leave the meeting with Rashmi, the Purchase Manager promises to be back in a few minutes. After the door closes behind him, Rashmi realizes that she is all alone in the Purchase Manager's cabin and sees that the file with all the competitive information is on the table, left open, as the Purchase Manager left in a hurry. What should Rashmi do? She has the option of peeping into the file, and learn that her company's quote is about 5 per cent more than the competitor's price offering. This vital piece of information would enable her to drop her company's offering price through a revised commercial offer, surely guaranteeing that she gets the order. On the other hand, if it later became known that her price was indeed dropped because the competitors' price quotes leaked, her long-term acquaintance, the Purchase Manager, who left his cabin trusting her, could be in deep trouble, not counting the damage to her own and her company's reputation. She also had to keep in mind that business was getting hard to come by, and this order could keep her company busy for many months to come.

In all these cases, it is easy to recognize that the manager concerned is on a very slippery ground. The situations are neither "white" nor "black," but in the zone in between. These are not situations involving

academic debates. They are situations faced by individual managers at various levels in companies day in and day out. It is in these types of situations that clear articulation and proper implementation of a clear ethical policy could help a company's employees to factor in the important ethical dimension into their decisions.

## NEED FOR GLOBALIZING INDIAN COMPANIES TO EVOLVE A FORMAL ETHICS POLICY

### Emerging Global Business Ethics Climate

Organizations being accused of or investigated for ethical violations is not uncommon any more. Events in many developed nations have shown that high-profile companies can, due to unethical conduct on the part of the leaders or the managers of a company, be reduced to bankruptcy. Ethics is an issue that has become very important to corporations in many countries, though it was the US corporations like Enron, Tyco, and World-Com that brought the issue of violation of ethics to the global centrestage. These instances have heightened everyone's awareness of unethical business practices. Being players in a global business environment, corporations worldwide have come to acknowledge increasingly the importance of business ethics and of the need for doing business in a fair manner at home and in foreign lands. While the perspectives of culturally diverse people across countries differ, the need to execute business based on ethical practices is fast becoming universal<sup>8</sup>.

In the wake of the multitude of corporate scandals in the US, the US Congress enacted the Sarbanes-Oxley Corporate Reform Act (SOX) in the year 2002. SOX draws attention towards serious government oversight on corporate governance in companies in the US. SOX mandates CEOs and CFOs to personally review each of the company's quarterly and annual financial reports and certify that financial figures stated thereof are not misleading on account of any material omissions, and that all results of the company's operations and financials have been represented fairly. SOX comes down heavily on companies that get caught on account of false filings, destruction and tampering of documents, and violation of security law. As per SOX provisions, individuals and companies that are implicated in issues of ethical violations can face criminal penalties for the offences committed. SOX has indeed caught the attention of CEOs,

CFOs, and the boards of directors of American companies like never before<sup>9</sup>.

In the post-SOX era, the US multinational corporations have taken an even more detailed approach to corporate ethics, and have been developing ethical standards for a global environment. SOX has had a ripple effect across the world owing to businesses getting increasingly globalized. When working with their subsidiaries or joint venture partners overseas, the US parent company ensures that the overseas outfits have systems and processes in place to avoid ethical shortcomings. Increasingly, these MNCs are expressing concern not only for ethical conduct within their own organizations, but also in organizations they do business with. They have come to understand that with the screws tightening on wrongdoers, tolerance for anything less than highest level of ethical behaviour can destroy the corporation. Similar legislations are becoming the norm in other countries. From a societal perspective, intolerance towards frauds and ethics violations are on the rise in most countries. Increasingly, executives involved in ethics violations have been held to account, have stood trials, and have been convicted and imprisoned, dismissed or forced to resign.

In the above context, it is important for Indian corporations to understand that they can no longer afford to ignore the issue of business ethics. In the emerging scenario, it is not enough if the leaders themselves are ethical. Competing to win in the global marketplace would require them to institute ethics and compliance policies that are of globally acceptable standards and build an ethical corporate culture by making ethics and values a prominent part of the leadership agenda.

In this scenario, Indian companies have an important choice to make. Each company's leadership should ask itself: 'Do we need an Indian version of SOX to force us to ethical compliance in a reactive mode?' Such leaders may argue: 'What is the need for us to act now? Let us wait and see what happens. If and when regulatory pressures for ethical business mount, we will get legal counsel to fix that issue for us, as we have done on many other issues.' An alternate response could be: 'Should we proactively position ourselves as leaders heralding a new era in the ethical business regime?' Sage companies would do well to study what has happened on the global stage in this regard. They would ask: 'What can we learn from events surrounding the formulation of SOX in other countries, and consequences to those

companies that indulged in widespread and rampant unethical behaviour?' Through such investigations, they will come to realize that there is significant brand equity enhancement that results from taking a proactive posture on the ethics front. They would learn that similar waveswept corporations on other fronts, such as quality, green business, etc. In all such instances, companies that took proactive steps strengthened their leadership positions. Proactive leaders would not be eager to reinvent the wheel. Instead, they would intuitively realize that it is in their best interest to jump-start the ethics revolution, akin to the manner in which India as a nation jump-started the telecom revolution, moving from minimal phone coverage to extensive telecom coverage through mobile telephony, largely bypassing the landline phase in the process. They will realize that the whole issue of business ethics is not restricted to moral righteousness; instead it is about enlightened self-interest.

### **The Business Ethics Imperative: Ethics as a Proactive Competitive Strategy**

What choices do top managements of companies have with regard to instilling ethics into the working of their organizations? At one extreme, leaders could choose to run their businesses expecting highest levels of ethical practices at all levels in the company. At the other end of the spectrum, leaders could signal either ambivalence or apathy to the subject of business ethics. Of course between these two ends, there are a variety of choices for a company's top management to implement. At a fundamental level, the company either adheres to ethical practices or does not, and thus the two ends of the spectrum are mutually exclusive. The leadership could signal or even expect that it is okay for the employees to manifest mercenary and ruthless behaviour. Such signaling implicitly legitimizes unethical practices. The irony is that in the short-run, such an organization could be greatly successful, although there can be no guarantee to its long-term sustainability. Alternately, the leadership could choose the more arduous ethical path. This would require transparency, accountability, and consistently high ethical practices at all levels<sup>10</sup>. The primary aim of our article is not to be prescriptive and normative, but to present a navigational map, outlining issues that must be addressed by a leadership team that is desirous of getting their organization to embark on an ethical path, and suggesting ways and means of tackling them.

Good ethics and governance are not just "moral"

or "compliance" issues. In the long term, they are essential behavioural traits for the organization to strengthen its reputation and its brand equity, which in turn result in sustainable growth. The 'ethical DNA' of an organization is just as important as its sales pitch. Not only must the company have a strong ethical foundation, but it must also be seen to be ethical. Having ethics codes and policies and implementing them tells customers, vendors, partners, investors, and other stakeholders what to expect when interacting and entering into a relationship with the company, thus helping to build confidence and trust among them<sup>4,11,12</sup>.

Effective, living statements of ethics, anchored in the strategic vision of the organization and business philosophy of its leaders and its employees, can differentiate a company from competitors. The International Business Ethics Institute confirms that a company with effective business practices enjoys considerable marketplace advantage since corporate practices and values are fast becoming primary considerations in the decision-making processes of increasingly larger number of international firms and customers that the company may be associated with. Market participants often make judgments about the ethical practices and behaviour of corporations that they deal with in the marketplace, preferring to do business with companies that they can trust. A seemingly innocuous slip in the ethical conduct could result in customers or partners choosing to deal with more ethical companies, often seeking reparation through the courts, media, and other channels. Thus there is unequivocal evidence to suggest that in the long run, businesses stand to benefit from a reputation for acting with integrity<sup>12,13</sup>.

Infosys Technologies is a good example of a company that validates this business hypothesis. It has demonstrated to skeptical Indians that businesses can be made phenomenally successful, that too in a single generation, by employing legitimate and ethical practices. The company believes that it is essential to identify values, articulate them, and strengthen them through action. This belief has paid off for the company in terms of strong financial performance<sup>14</sup>. The ethical foundation in the company was undeniably laid by the company's founders. Fortunately, for any Indian company that seeks to tread the ethical path, there are several similar role models from whom they can learn.

As difficult as it may be to quantify the benefits of ethical actions to the company's bottom line, a study

conducted by the Institute of Business Ethics in the UK between 1999-2001 confirms that performance of companies committed to ethical conduct is far superior to those that do not practice business ethics. The indicators of business success such as economic value added (EVA), market value added (MVA), price/earnings ratio volatility, and return on capital employed (ROCE) of companies with ethics codes were much higher than those of companies that did not conform to ethical practices<sup>15</sup>.

In addition to superior financial performance, high standards of ethics bring significant business gains in terms of customer loyalty, investor trust, building a 'clean' image and reputation, strong brand equity, and stable growth. It induces other business associates to behave ethically as well, contributes to employee commitment and loyalty, and promotes positive behaviour within the organization. Business ethics can effectively be deployed and leveraged as part of the company's competitive strategy, to attract more business and more talent<sup>16</sup>.

### Consequences of Not Having An Ethics Policy

For a company that does not have a well-defined ethics policy or implements a well-articulated ethics policy in a lackadaisical manner, the consequences could be disastrous, as the following example demonstrates<sup>17,18</sup>. Sadly, such occurrences are not uncommon.

In April 2005, an organized and systematic plot to siphon money from the bank accounts of four high net worth foreign customers of a major MNC bank was hatched by the employees of an India-based customer service centre of a leading BPO company that operated the call centre for the MNC bank. Three of the customer service executives working at the BPO company were enticed into acquiring and parting with the passwords and personal identification numbers of four customer accounts of the bank by a group of former employees of the BPO company who were the masterminds of the fraud. The information so obtained was used to transfer the customers' money, amounting to several hundreds of thousands of US dollars, to bank accounts opened under false names. The fraud came to light when the affected customers of the bank alerted the bank about the missing funds. The bank then traced the withdrawals to the BPO company's customer service centre. The Cyber Crime Cell of the police in India investigated the plot and the persons involved were arrested on charges of fraud.

Considering that what happened in this situation was the work of unethical employees, there is also the shared responsibility of the company for this major unethical act, which cannot be overlooked. Despite the call centre being BS 7799 (a security certification) and CMM Level 5-certified (high-end quality certification), unethical behaviour by some of the employees still occurred. While one might argue that such incidents are few and far between, the adverse impact on the company in particular and the country in general can be lethal. What this example highlights, however, is that it is essential for companies to pay a lot of attention to ethics, and not leave it to chance or happenstance.

Moreover, rarely do ethical shortcomings of a lone individual fully explain corporate misconduct. Corporate misconduct usually involves several others, either in an active or a passive way, and reflects the values, approaches, and principles that define an organization's operating culture. Thus, ethics has everything to do with management, and the organization is as much responsible for an individual's wrong-doing as the individual himself. Organizations that fail to institute robust systems that facilitate ethical conduct share responsibility with those who benefit by contriving and executing unethical acts. Undeniably, the onus to create a culture that promotes ethical behaviour lies squarely with the top management of an organization<sup>19</sup>.

### TACKLING THE "NEXT FRONTIER": WHAT INDIAN COMPANIES NEED TO DO

From our discussions above, it is clear that business ethics and compliance is the next frontier for Indian corporations to address as they become increasingly involved with worldwide markets. Strangely, our experience suggests that awareness of this issue is still at a very nascent stage in many Indian companies. Indian corporations would need to build trust in their international stakeholders through committed action on the ethics front. This would involve setting up compliance programmes to a code of ethics to counter unethical behaviour and create an ethical business environment within the organization. This is also a time for Indian corporations that already have elaborate ethics codes and policies in place, to review and renew their ethics efforts, and implement benchmark ethical practices suited to the global industry<sup>17</sup>.

Implementing a strong ethical basis of working is relatively easier for a younger company, when its DNA

is still being moulded. For more established companies that did not have a well-implemented ethics policy in the past, it takes leadership and hard work to usher in an ethical organization culture. While this is a challenging task, it is not insurmountable. While one might argue that the attitudes and value systems of employees are already formed when an employee joins a company, ethics and guidelines help employees to know what the company expects of them on the ethics front, what behaviours are acceptable and what are not.

Ethics is a complex subject, requiring more than mere compliance with the laws. It represents the obligations of a company to all its stakeholders — customers, shareholders, employees, suppliers, partners, society at large, and the government. While individual organizational approaches to tackling the challenge of business ethics may vary, an approach that is embedded in well-articulated organizational values stands a much better chance of being successful. Such a holistic approach should explicitly spell out how ethics must be implemented in the organization, the role of leadership, and the role of individual employees in fostering a climate that encourages exemplary ethical behaviour.

### Components of a Company's Ethics Policy

The first phase in building an ethical corporate culture is to develop a formal ethics programme that includes the following features<sup>4,12,20,21,22</sup>:

The code of ethics must have statements that are relevant and that define expectations regarding employees' behaviour that is needed to guide them in their day-to-day decision-making. The code of ethics must be derived from the organization's core values, which in turn must be derived from the core purpose and broad mission of the organization, as well as the beliefs of the founders/key top managers of the organization.

Ethics statements must not be created solely as compliance documents, rulebooks or public relations material. Issues related to legal and regulatory matters need to be addressed, but more crucially, ethics statements must communicate the importance of ethical behaviour and the company's core values such as integrity, trustworthiness, honesty, and transparency.

Ethics statements must be in plain, easy to understand language. Generic ethics statements that read like they belong to any company anywhere do not resonate with employees. Including things that are unique to the business would make the statements more relevant to

the organization. Standards must be laid out that lucidly state what 'can' and 'cannot' be done by an employee in a given situation. However, providing a rule for every situation would be virtually impossible and therefore the employee must be allowed to use his personal judgment, which must be consistent with the ethical standards of the organization.

In matters where temptation to behave unethically is the strongest, the ethics codes must present specific direction about ethical behaviour. For example, if bribery is unacceptable, then the code of conduct must clearly describe situations that would be considered unethical in the company (such as offering bribe to public officials, or bribing an employee of a customer firm, etc.). It must comprehensively describe situations that would be considered a violation of the code of ethics. Specifying what an employee must do when he confronts ethical uncertainties, encounters ethical misconduct, or when he is being pressured into committing ethical misconduct, are an essential part of the code of ethics. Since it is the top managers of the company who define the code of ethics, they must make definitive and often tough choices on what is acceptable and what is not acceptable.

Finally, the code of ethics drawn up must be benchmarked with the codes of ethics of best practice companies in the world on a continual basis.

### Steps that Indian Companies Must Take to Develop An Ethics Policy

- **Establishing a code of ethics** : In most Indian companies, ethics is seldom formally addressed as an important management agenda. It is dealt with on a case-to-case basis as and when problems arise. While instincts alone may have sufficed in the past to address ethical issues, in today's complex and demanding global business environment, a well-defined code of ethics, as described above, acts as a behavioural compass for employees, helping them to make decisions within the business, legal and ethical boundaries.
- **Communicating the code** : While drawing up the code of ethics is a significant task in itself, it just marks the beginning of the journey to build an ethical culture. The organization must have processes to effectively communicate, implement, and update its code of ethics. At a minimum, this includes the following steps:
  - Making sure that every employee has a copy

of the code of ethics or access to the same.

- Ensuring there is no ambiguity in understanding the code of ethics. The document should have adequate number of diverse examples about the code's deployment and utility.
- Conducting training programmes to allow employees to review the code's provisions, to understand how the provisions apply to the individual's specific job responsibilities, to inform the specific behaviours and decision-making processes the organization would like the employee to use when confronting ethical challenges, etc. Ultimately, training efforts must result in employees feeling an increased level of confidence and comfort when actually having to make ethical business decisions.
- Communicating the policy repeatedly: Starting all meetings by highlighting the code of ethics is a good way to bring ethics to the centre stage of the organization's working.
- Creating a habit of routinely talking about ethics at all levels: If an employee or a team in the company chooses to do something right even though it is difficult to do so, capturing such instances and using them as living examples to illustrate desired behaviour goes a long way in reinforcing what is an ethically acceptable behaviour in the organization. Using organizational newsletters to communicate such instances and stories of ethical conduct to everyone in the company is another powerful tool to reinforce ethical behaviour in the organization.
- **Going public with the ethics statements** : Going public with the company's code of ethics would demonstrate to employees the commitment of the organization towards its stated values and ethical standards. It would enable customers, vendors, and other stakeholders to know what to expect when interacting with the company's employees, making it easier for the company's employees to follow the codes. Moreover, circulating these codes helps to build trust and loyalty among various external stakeholders such as suppliers, customers, partners, governmental agencies, etc., and differentiates the company from its competitors.
- **Establishing robust processes for handling ethical issues** : Establishing and making widely known processes which the employee can use for bringing

up matters of ethics for resolution are an essential part of ethics implementation. This includes taking swift and fair action on reported violations, after due investigation of the allegation. The processes should be transparent and encourage an on-going dialogue to enable individual employees to understand the ethics policy better and help them to take ownership of the same. Mature management processes that allow employees to challenge the policies in a positive spirit to ensure their continued relevance through periodic review and reevaluation are essential. At the same time, there should be processes to track and come down hard on cynics.

- **Providing support structures** : Mechanisms for reporting violations such as ethics hotlines and mailboxes must be instituted. The reporting mechanism must be secure, confidential, and available to all employees. Someone senior with high credibility should handle this hotline, with direct reporting to the CEO; alternatively, it could be the CEO's office itself.
- **Reviewing the codes** : It is essential to review the ethics codes at regular intervals to meet the changing needs of the organization, marketplace, and regulations.

### **Business Ethics and Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is an aspect of business ethics that has assumed significant importance in the age of globalization and expanding markets<sup>23</sup>. The morally-influenced attitudes of consumers in markets have forced many multinational corporations to redefine their definition of social values and rules of their business. There is an increasing realization that corporations are created by the society and that they must give back by serving the society and not merely by making profit from it. Thus for instance, environment protection and supportive social action have become important factors that determine a company's success in international as well as in many countries' domestic markets. Corporations that shirk responsibilities towards the society, the environment, and other stakeholders that have contributed to the growth and prosperity of the business, are viewed as 'not ethically-driven' by the society at large and also by the international business community.

New age corporate leaders are replacing the business philosophy of 'maximization of profits' with 'op-

timization of profits' by shifting their business focus from 'accountability to shareholders' to 'accountability to stakeholders' (including employees, customers, communities, etc.). The growing focus on Corporate Social Responsibility mandates that these stakeholders have a right to expect accountability and transparency as well as social and environmental investment from corporations as these corporations have survived and flourished because of the customers who buy their products, the employees who work for them, the communities who support them, the environment that has provides natural resources, the shareholders who invest in their stocks, and the partners and suppliers who work with them.

A corporation that partners with non-government organizations and government organizations to solve societal problems (such as substance abuse, education of economically backward sections, human rights issues, unemployment, child labor, etc.) and environmental concerns (such as recycling of material, proper handling of industrial waste, effective pollution abatement, effectively addressing health hazards, etc.) would not only help society at large but also helps itself to build its reputation and long-term brand equity. It builds up confidence and trust in the marketplace. It increases the visibility of the organization. Corporate Social Responsibility creates benefits for a corporation in the areas of marketing, shareholder value, human resources, innovation, and many more.

In the above context, it is essential for Indian corporations to be seen as more 'responsible' by integrating social issues with business practices. Global customers, companies, and investors are demanding increasing social responsibility and community involvement from corporations they deal with. They prefer to build relationships with corporations that are committed to important societal and environmental causes. Their expectations on Indian corporations that they deal with is that they not only conduct their business ethically but also ensure that the business effectively addresses environmental concerns and social responsibility issues. Ignoring Corporate Social Responsibility would mean endangering business success in the global marketplace. It is unlikely that a company can be ethical while not manifesting a high degree of social and environmental responsibility. Corporate Social Responsibility and responsibility to the environment are themselves large and important issues for any company today. While they are intimately connected to ethical behaviour of organiza-

tions, the focus of our discussion is corporate ethics.

## ENABLERS FOR EFFECTIVE IMPLEMENTATION OF AN ETHICS POLICY

We now discuss the three vital enablers for effective implementation of an ethics policy in a company. The first relates to the organizational culture necessary to implement business ethics. The second deals with the central role of the leadership in the organization, comprising the top management. The third relates to the key role of individual employees that is essential to make the ethical journey of the company a success.

### The 3 R's<sup>24</sup>: Prerequisites for a Company to Embark on the Business Ethics Journey

The 3R's, which are the prerequisites for business ethics are Respect, Responsibility, and Results. Building these three factors into the organization's culture would help to align the behaviour of its employees in the ethical direction. Conversely, it is unlikely that an organization can manifest extensive ethical behaviour in the absence of these three R's.

- **Respect** : People, organizational resources, and the environment (internal and external) must be looked upon with respect. Examples of such behavior include treating all stakeholders with dignity and politeness, making effective use of company resources for business purposes only, drawing a clear distinction between company and personal assets, abiding by the law, and refraining from abusing the natural environment in which the company operates.
- **Responsibility** : Demonstrating responsible behaviour towards stakeholders and towards oneself is a prerequisite for business ethics. Examples of such behaviour include delivering competitively priced products and services of high quality at the right time, working together to achieve the organization's goals, and meeting performance expectations.
- **Results** : Employees need to be encouraged to achieve results by employing means that are ethical.

### Role of the Leader in Business Ethics

Many recent reported cases of unethical behaviour on the part of the leaders of companies have resulted in putting the spotlight squarely on the ability of the CEO and other senior executives of the company to run a clean business. No amount of ethics training programmes,

codes of conduct, mission and core value statements or ethics manuals would help create or maintain the 'do-it-right' climate within the organization, if the leader himself is engaged in ethical transgressions or does not act within ethical boundaries.

When leadership at the top is unethical, it proves disastrous for the business, particularly in the long term. It invites legal problems, with the business having to expend huge amounts of money in lawsuits, regulatory fees, lawyers' fees, settlement fees and the like. In unethical leadership, the means that leaders adopt to attain the desired results is often questionable. These leaders put personal needs before that of their organizations and employees. They do not exercise leadership in the interest of the organization, and have little or no self-control. Unethical leadership infringes upon common codes of decency and good conduct. It does not differentiate between the right and the wrong. It contributes to low employee commitment, satisfaction, and comfort. It often leads to an organizational environment that encourages employees to rationalize their own unethical behaviour and become indifferent to the moral legitimacy of the business decisions and choices that they make. In short, ethics gets sacrificed in the face of bad leadership<sup>25</sup>.

For employees to act on the basis of strong ethical principles, the organization must be led by a chief executive and other top managers who see the value in conducting business within legal and ethical boundaries. That they are willing to accept ethical behaviour as a constraint or a cost must be visible for everyone to see. The leadership must 'walk the talk.' The following example illustrates how the chairman of a large Indian software firm practices business ethics, and through his business decisions, strengthens the ethical fibre of the organization. The resulting organization culture that he has built over the years encourages exemplary ethical behaviour in the company.

A couple of years ago, a large imported consignment of one of the group's companies landed at the Mumbai port and was due for customs clearance. It was believed that the import duty rates on the imported items would go up on account of the likelihood of higher duty rates to be announced in the Indian budget the following day. Attempting to cash in on the situation, concerned officers in the customs department made a proposal to the company's managers that they would speedily clear the company's consignment at the lower

applicable customs tariffs, in exchange for a relatively small monetary consideration. For a moment, managers of the company who were involved in the customs clearance were tempted to consider the proposal. However, the ethical policy of the company necessitated that they should refer all such matters to their senior managers. The matter was actually taken right up to the chairman. His stance on the issue was unambiguous and simple: "Go and plead with the customs officials unfailingly every day to speed up clearance of our imported consignments purely in the normal course. Do not part with a single rupee. If your efforts do not succeed, do not lose heart. If at the end we have to pay a much higher duty, never mind. We will pay it. But make diligent efforts to clear our consignments only in the normal course"<sup>26</sup>.

Without doubt, the single biggest determinant of an organization's ethical DNA is the behaviour of the leadership to ethical issues. Often, leaders blame the behaviour of people in the organization on an unethical external environment without recognizing their own responsibility in creating, deploying, and maintaining systems that promote an environment of high ethics in the organization. It is universally acknowledged that the manner in which the chief executive exercises moral judgment has more impact on employee behaviour than any written policy. The ultimate responsibility for bringing about an organization culture that is sensitive to ethical conduct rests with the leader at the top. This provides the necessary signaling to leaders at every other level in the organization to themselves serve as role models to their subordinates.

At final reckoning, the organization's leaders are responsible for transmitting an unambiguous message of how things are done in the organization. The leader has no option but to behave in an ethical and trustworthy manner if he seeks to establish an ethical culture in the organization. To cause others in the organization to act ethically, the leader must first begin with him. The core behaviours of a leader required to establish his credibility and thereby build trust and ethical conduct in the workplace include the following<sup>27</sup>:

- ***Integrity*** : The leader must be honest, humble, and open. He must have the courage to act in accordance with his own deeply held ethical values as well as the organization's core values, which are themselves based on a strong ethical foundation. There must be no gap between his intent and behaviour. When

the leader is true to his principles and beliefs, acts with humility, and is open, he creates no room for suspicion, and will be able to inspire trust and ethical actions from others in the organization.

- **Intent** : The leader's motives and agenda must be unambiguous with a clear focus on benefiting internal and external stakeholders. When employees are wary of the leader's hidden agenda or they suspect that the leader is not acting in the organization's best interest, using ethical principles as his cornerstone, they become skeptical about everything the leader says and does. This fosters mistrust of employees in the leader and they are less inclined to act morally themselves.
- **Capabilities** : The leader may have integrity and good intent, but if he lacks capabilities in terms of the ability to establish, grow, extend, restore, and continually reinvigorate ethics in the organization, his efforts to build the desired ethical culture will fail.
- **Results** : The leader must create a track record for achieving results by employing ethical means. When he does not accomplish what he is expected to deliver in terms of the organization's results using the 'right' methods, it weakens his credibility and employees become cynical about the possibility of building an ethical work environment.

When the leader has integrity, intent, is capable, and produces results, his actions send powerful signals about who he is and what he expects of others in the organization. He acts as a role model for principles of behaviour that he espouses. When employees observe that leaders are ethical, they feel less compelled to compromise on ethical standards. Acting ethically for them becomes no longer a burdensome constraint. Instead, it becomes a part of their day-to-day operations and transactions.

### Role of the Leader in Integrating Ethics into the Organization's Culture

As a leader, one may be successful in demonstrating credibility, drawing up effective ethics policies and compliance standards, with a view to make people act within the ethical boundaries. Often however, leaders fail in making ethics an integral part of the organization's culture. For this to happen, the leader must create positive organizational symbols and must model ethical behaviour through visible action.

### Creating Organizational Symbols

Symbols are those objects, actions or ideas that connote and convey essential paradigms to everyone in the organization. It has been said that "actions speak louder than words" and this holds true for symbols too. Symbols have the power to convey the desired paradigms much faster and more explicitly than words. Examples of negative symbols include: managers misrepresenting sales figures as a response to contextual forces and a CEO who commutes in an expensive car and lives in a plush bungalow paying hefty rents at company expense while people are being laid off. Such behaviours have a detrimental effect on efforts to implement organizational ethics. Positive symbols include the decision of a senior executive to do a statewide recall of the company's product to avoid further damages to health of customers from product tampering and a senior executive backing out of the bidding for a huge project of a client because the deal was not in tune with the company's value system. In whatever form, symbols become valued as illustrations and images of what is right or wrong in the organization. The leader has the responsibility to create more 'positive' symbols that are in line with the principles of ethics<sup>27</sup>.

### Modeling Ethical Behaviour

As a leader, one has greater responsibility than the average employee to live up to ethical standards and principles. However, it is not sufficient for the leader alone to be principled in order to manifest good ethical behaviour among the employees. This would only communicate to the employees about what their leader is. While they may applaud the leader for his ethical conduct, this by itself does not tell them what they should do. For employees to understand what they should do, the leader must additionally convey the ethics message to the organization through his actions and decisions<sup>20,28,29</sup>.

- **Doing the right things and conveying it to others** : A leader may be the ethical person the position demands and may do the 'right' things, but the challenge also lies in conveying the values underlying his ethical actions to the employees. Only when these values get conveyed to employees do they view the leader as ethical, understand who he really is, and what is important to the organization from an ethics standpoint. Employees make conclusions based upon their leader's actions and believe that whatever the leader does is the right thing for them to do as well. Therefore, the leader must set

the ethical tone for the organization through visible action.

- **Talking more about ethics:** The leader must tirelessly stress upon the need for ethical conduct at all levels, including among his colleagues in the senior leadership. Talking about the values that guide important decisions and actions, making it clear to employees that they are welcome to raise questions or seek guidance on the ethical course of action to be taken when in dilemma, missing no opportunity to publicly praise someone who has acted ethically, maintaining an 'open door policy' towards ethical issues and giving a patient hearing at the earliest opportunity possible when someone wants to talk about an ethical issue, are strong signals a leader sends to the organization about his seriousness on the subject of ethics. Signals that suggest that despite all the talk, the leader is not really interested in serious pursuit of ethics in the organization include procrastinating discussing with employee who seeks to discuss an ethics-related issue.
- **Being approachable:** When employees' interactions with senior executives are restricted, employees feel uncomfortable voicing to their leaders, tough issues such as those relating to ethics and their experiences of what is right and wrong in the organization. Leaders must therefore consciously make themselves more approachable and be good listeners. Being open and encouraging openness on the part of others in the organization prevents ethical issues from blowing up into full-fledged problems that could have an irreversible adverse impact on the company's image.
- **Treating employees fairly:** Most employees interpret ethics as 'fairness.' Fairness means being treated with dignity, courtesy, trust and respect, being given the rewards that they deserve, and being treated fairly by their leaders and supervisors in general. When employees feel that they are treated fairly, their commitment towards ethical behaviour increases. If they perceive themselves as being treated unfairly, they are more likely to resort to various types of unethical behaviour.
- **Demonstrating through examples that ethics is a living principle guiding the organization's working:** Highlighting instances of employees who use ethical means to achieve seemingly impossible tasks demonstrates desired behaviour. Keeping a record

of such anecdotes to cite as examples to the present and future employees and publicizing ethical achievements through publications, newsletters, and bulletin boards are some other means for such demonstration.

- **Integrating values into decision-making activity:** The values of integrity, honesty, and transparency when integrated into all of the organization's critical activities such as planning, budgeting, goal setting, resource allocation, information gathering, communication, performance measurement, etc., send strong signals about the importance of ethics.

### Role of Employees in Business Ethics

While leadership in a company can set the tone for ethical behaviour through their own behaviour, actions, decisions, and the articulation and implementation of an ethics policy, it is finally the employees at various levels of the company who actually have to manifest ethical conduct in their myriad day-to-day decisions concerning the company. We now seek to understand in the following some of the reasons that prompt some employees to deviate from an ethical path. Essentially there are four reasons that cause unethical behaviour.<sup>30</sup>

- **A view that the activity is within permissible ethical and legal limits, i.e., it is not 'exceedingly' illegal or immoral:** Employees sometimes believe that their unethical actions are within 'safe limits' and would cause no harm. Sometimes they conclude that whatever has not been labelled particularly wrong is okay to do, especially if there is an incentive attached to such an action. Employees are tempted into unethical actions because superiors often give the impression that those who produce 'results' will be well-compensated for and that the means employed to achieve them will not be scrutinized.
- **A view that the activity must somehow be undertaken as it is in the individual's or company's best interests:** Some employees engage in unethical behaviour when they perceive that the job would get done faster or better by resorting to such behaviour. They tend to cut corners and use shortcuts to achieve results and project themselves to be better than other employees.
- **A view that the activity is 'not damaging' because it will never be discovered or exposed:** Some employees engage in behaviour such as padding ex-

pense claims, falsifying financial reports, employing questionable methods to attain results, misleading customers, etc., with the belief that such behaviour will not be damaging or will not be discovered.

- **A view that because the company will benefit from the activity, the company will overlook the unethical behaviour and will even shield the person who engages in it:** Some employees resort to unethical behaviour with the belief that not doing so will harm the company. For instance, employees may hold back information regarding quality shortfalls of the product from a potential customer for the fear that the deal would be lost.

In the absence of a well-articulated and well-implemented ethics policy, the possible views described above tend to be subtly embedded into the thinking and behaviour of employees, often in the form of misconceptions, which lead them to do things that are unethical.

### Resolving Ethical Dilemmas through the Ethics Litmus Test

When employees confront situations that represent potentially ethical dilemmas, subjecting the decision-making process to the guidelines discussed in the following could help them make ethical decisions. Individual employees making ethical decisions at all levels of the company in their day-to-day behaviours must be enabled to support the code of ethics and the company's leadership that drives the ethics programme. The fragile ethical environment of the organization can be easily broken with seemingly minor ethical lapses. It is not the corporation that makes ethical choices. Ethical choices are made by individual employees at all levels in the organization in their day-to-day working, where 'the rubber meets the road.' Recognizing this reality, the following provides an effective litmus test for individual employees to subject their decisions to five broad ethics criteria<sup>30,31</sup>.

- **Legal compliance:** Does my decision comply with all the legal requirements? Will I be violating any criminal or civil law by undertaking the proposed action? Do I have sufficient knowledge about the laws governing the action that I am about to take?
- **Consonance with company policies and procedures:** Is my plan of action in line with the rules and procedures stated in the company's ethics policy? Is it in consonance with the traditional values of the organization?

- **Balance:** Does the decision balance self-interest and the consideration for others? Would my decision bring short-term and long-term gains to all concerned? Would my decision be beneficial to all those directly and indirectly involved with the decision?
- **The conscience test:** If I take this decision, would it make me feel uncomfortable? Will I be able to look at myself in the mirror if I did this? Will I be able to live with the decision I make? Will taking this decision reflect the kind of person that I want to be? Can I talk about this decision to my mother without flinching or feeling ashamed?
- **Promises made:** Will my action meet the business commitment made to other parties such as customers, suppliers, colleagues, employers, partners, etc.? Will my action break trust or will it build more trust?

When dealing with ethical decisions, taking the time to reflect on all these questions will to a large extent demystify the ethics of the situation, thus facilitating a responsible ethical decision to be taken. However, there are also likely to be situations when clear answers do not emerge from such reflections and introspections due to the complexity of the issues involved. For instance, the situation may be clouded by uncertainty; the decision-maker may lack sufficient information; the decision-maker may have to reckon with conflicting views from different people concerned; or the situation could involve conflicting responsibilities. The individual employee may be able to better navigate through such complex ethical dilemmas by some of the following steps<sup>32</sup>:

- Figuring out the consequences of alternative courses of action.
- Talking and getting advice of people who are trustworthy. This could help make better decisions.
- Weighing the different points of view and take a call through clear thinking on what is right at a given time, place, and circumstance.
- Having the courage and motivation to take the right decision drawing on the individual's intuition, convictions, religious beliefs, etc., while recognizing that everything required to be known about the situation can never be fully known before the decision is made and that the situation at hand demands answers that have no indisputable or absolute solutions.

While reflections and introspections such as those enumerated above are essential to resolve complex ethical

issues, this is only half the battle won. Having arrived at a solution that appears to have taken into account both the business and ethical content of the issue at hand to a satisfactory degree, an equally tough challenge is to ensure that the solution culminates into calculated action in order to get the job done. It is not enough to just have a sound understanding of personal values and arrive at an ethically balanced solution. One must be able to adapt the solution to the realities one faces in the work environment. This calls for considerable organizational expertise, diplomacy, shrewdness, creativity, and boldness in implementing the solution. In an organizational context, it is sometimes necessary in order to ensure that the end result is achieved, to execute the solution imaginatively, without making it obvious that the decision-maker has led the way. For instance, the individual may have to give the credit to his superior to show the latter in good light and to let him take the credit. Thus, often it may be necessary for the individual to use appropriate tactics to make his ethically balanced decision a reality because “do-the-right-thing idealism without being organization-savvy is a sure path to obscurity”<sup>7</sup>.

In summary, while the company’s code of ethics and enforcement of ethics by the organization’s leadership are important and necessary, these measures would prove ineffective without the emotional power of commitment from individuals in the organization. This commitment must be inspired by pride towards being ethical and the loyalty to one’s own sense of integrity rather than solely stemming from one’s interest in his career and job performance<sup>33</sup>. This is where inducting the right set of people into the organization becomes imperative. In today’s superheated job markets in India, this could pose a serious challenge as organizations tend to recruit employees in large numbers, more for skills, and less for the individual’s ethical propensities, in order that the company may seize the opportunities at hand.

## CHALLENGES IN IMPLEMENTING BUSINESS ETHICS IN AN ORGANIZATION

While a combination of leadership commitment, code of ethics, training programmes, ethics hotlines, and convictions of individual employees help to set the ethical standards for the organization, there are several people-related and process-related implementation challenges an organization must grapple with in establishing and reinforcing these ethical norms.

## People Implementation Challenges<sup>29,32</sup>:

- Establishing ethical norms and enforcing ethical behaviour is a huge task requiring considerable investment of time, resources, and an unremitting effort on the part of leadership of the organization.
- Career and job performance are two factors that most people in an organization fear jeopardizing. This produces strong pressures to choose the less-difficult unethical option rather than the relatively more difficult ethical option in a given situation.
- When an employee faces an ethical or legal issue, he is generally unwilling to seek help or guidance from inside the organization on policy guidelines or laws. This happens for a variety of reasons including sensitivity of the issue at hand. This often results in the individual making mistakes. Such reticence results in the ethics and compliance programme becoming merely a statement of good intentions.
- Employees are often unwilling to report an observed misconduct or legal violation, as they fear that it would be putting their careers and family at stake. They also fear retaliation or being alienated in the event that their identity gets exposed. The developing unethical risk or problem could get aggravated and reach a point where it is too late for any corrective action.
- Raising every individual employee’s awareness to ethical and legal issues can be a key challenge. Many people often manifest unethical behaviour because they are not aware of the laws and regulations as well as ethical imperatives pertaining to their work. Making every employee familiar with legal and ethical dimensions that governs his job does not happen naturally and can occur only if there is intense organizational commitment to ethics.
- Very few companies embody values consistent with those that the employee hopes to live by. This forces the employee to reluctantly adapt himself to the culture of the particular company. Otherwise, his only option would be to change the job with no guarantee that the new job would be any better on the ethics front. Perhaps an ethics certification of companies on the lines of quality certification, ISO, CMM, environment (ISO14000), etc., which would become a reality over the next several years, will provide aspiring employees prior information about

ethical leanings of the company before they decide to join it.

- It is not easy to determine the ethical 'DNA' of employees at the time of their joining the company. Reference checks can help, but most of them tend to be formalities and usually do not reveal any past history of unethical behaviour, as the person providing the reference usually tends to desist from giving adverse feedback on past unethical behaviour, fearing that he would be jeopardizing the career chances of the person being assessed. Moreover, with pressure for skilled people being faced by every organization in the country, due to huge growth opportunities, some of the processes for holistic screening of candidates seeking jobs in the company tend to be short-circuited.

### Process Implementation Challenges<sup>29</sup>

- Ethics codes can at best serve as a guide post. They cannot provide comprehensively a rule for every situation or specific advice for every gray area that an employee would possibly encounter in his job. This could sometimes put people in a dilemma about what are acceptable and unacceptable behaviour patterns. Striking the right balance between offering clear directions on every conceivable situation, thus making the ethics code unwieldy, and providing latitude for individual judgment is a non-trivial problem while formulating the code of ethics.
- Employees sometimes view the ethics programme as superficial, either put in place to respond to external pressures or to protect top management from blame or for external publicity purposes. In such situations, employees are likely to view the ethics programme with cynicism. Such perceptions make the organization more prone to unethical behaviour, lead to lower awareness of ethical issues among employees, with employees being less likely to seek advice from within the organization when confronted with an ethical dilemma.
- A lack of trust by employees about internal processes such as those pertaining to whistle blowing discourages them from bringing ethical and legal violations to the notice of the management, thus weakening the ethics programme.
- The ethical climate of an organization is reinforced by the ethical actions of each and every individual.

If an employee operates outside the organization's ethical system, and such behaviour is not detected and appropriately punished, it gets communicated to and often emulated by other employees and stakeholders. This results in the employees collectively undermining the credibility of the organization's commitment to ethics.

- Enforcement of ethics poses special challenges in situations involving decentralized operations. With more and more employees working independently and frequently out of their homes, such decentralized working is an emerging reality. There is little possibility for direct supervision of such employees, making it a challenge to ensure that these employees conform to the company's stated ethical standards. In such situations, leaders are almost entirely dependent on the ethical judgment and moral character of these employees.
- Keeping the code of ethics updated and contemporary is a challenge. To continue to be relevant, the ethics code must evolve with the changing standards of the legal and societal as well as organizational frameworks in dealing with ethical issues. Examples of such evolution of the legal, societal, and organizational environments include emergence of new technology, new forms of competition, new types of customers, new issues relating to vendors, changing marketplace dynamics, new laws and regulations, etc.
- Designing ethics codes and compliance measures for companies that are global in scope can be extremely challenging. Standards of ethical conduct may work well in the company's home country but may fail in other countries due to differing norms and laws, different regulations, cultural differences, different ethical standards, and different ways of handling unethical behaviour.
- Given the pressures to grow the top and bottom lines in most corporations, adherence to ethics is often seen as needless distraction with no immediate pay-off. This orientation must change if ethics should take centre-stage in an organization's functioning.
- The key challenge for the leadership in organizations is to address cynicism, establish the need for ethical functioning of the company, and present a road map to achieve this despite widespread systemic hindrances.

## CONCLUSIONS

The task of building an ethical corporate culture by bringing about organizational values and individual principles to life is a challenging process. Indian companies embarking on this task must understand that this is a difficult journey. There are many steps involved in creating an ethical climate that strengthens the relationships and reputations on which the company's success depends. Merely implementing a legal-compliance-based programme that prevents, detects, and punishes legal and regulatory violations does little to tackle the problems that trigger unethical conduct. Although it is necessary to have a well-thought-out strategy for legal compliance that must be strongly implemented, it is hardly adequate for managing the extensive panorama of ethical issues that confront managers every day. Going beyond the disciplinary legal-compliance approach and combining it with a value-based approach is what is required to implement a strong ethics programme in organizations. An ethics programme designed on the basis of a value-based approach inspires moral commitment and ethical behaviour in accordance with a set of guiding principles.

The structural features of a value-based ethics programme are similar to that of a legal-compliance-based programme. It requires a code of ethics to be crafted. Training to familiarize employees about the code of ethics is essential. Mechanisms for reporting ethical lapses and scrutiny of the same must be put in place. Audits and controls to ensure that the company meets its stated standards of ethical conduct must be instituted. A value-based ethics programme is much more holistic in that it enables self-governance and responsible conduct by all employees of the organization, thereby bringing to life the organization's guiding values. Such a programme defines the responsibilities and aspirations that constitute an organization's ethical culture. Most importantly, a value-based ethics initiative accentuates the personal commitment and credibility of leaders at all levels, putting them under intense spotlight and scrutiny by other employees of the organization. The responsible actions of leaders, their willingness to act on the values they espouse, and their continual demonstration of integrity, honesty, transparency, and consistency are keys to channel organizational behaviour in the ethical direction. When the company's leadership falters on ethical values, employees are likely to become skeptical and cynical about the relevance of

ethics in their day-to-day functioning, resulting in the eventual abandonment of the ethics programme.

One of the first steps towards driving the ethics programme is to establish a relevant code of ethics rooted in the organizational values, shared values of employees, and the business philosophy of all key stakeholders. They must not be mere compliance documents or rule-books that differentiate the right from wrong. It is essential to effectively communicate the code of ethics to the intended audience, train employees on the code's content so that they understand its practical importance, and to discuss on an on-going basis, ways to address ethical challenges not directly addressed by the code. Deploying mechanisms to report and investigate misconduct, and punishing violators after thorough investigation are some of the measures without which even a well-intentioned ethics programme is likely to flounder.

Printed ethics codes are helpful, but the organization must realize that regardless of what the code says in print, ethical behaviour is largely dependent on leaders. If employees observe ethical indiscretion by the leader, in all likelihood they will soon begin to emulate such unethical behaviour. This mandates that the leader must be a role model of ethical behaviour. He must walk the talk, and lead by example.

Perhaps the most important thing to remember about ethics is that ethical behaviour has to be practised by employees throughout the company. They need to make ethically sound decisions on a day-to-day basis. Ethical awareness and thinking must become part of the organization's work culture. This can be facilitated by integrating the company's values into its operating systems and processes. When trying to resolve complex and often difficult ethical dilemmas, employees must ultimately make a decision relying on their own judgment, intelligence, and principles.

Indian businesses that want to endure, grow, and make good profits in the global marketplace over the long haul have no option but to proactively implement benchmark ethical business practices, which in turn will enable them to achieve market trust and excellent reputation. In a broader sense, business ethics is all about brand and reputation. It is about the feeling that stakeholders—customers, suppliers, employees, shareholders, society at large, and the government—have about the organization that make them want to buy the company's products or services, want to deal with the

company, want to work for or be associated in any manner with the company, want to invest their money in the company, and want to support the growth of the company. Creating a brand that inspires trust is the cornerstone to success. Trust must be earned by not only maintaining accurate and truthful records and financial statements, being socially responsible and establishing proper systems of audit and control, but additionally by shaping an appropriate set of organizational values, integrating a shared set of values, and guiding principles into the normal processes of management decision-making, ensuring that the organization's systems support and fortify the company's values, by leaders being credible and committed to the values they espouse, and by employees being committed to ethical behavior.

As Michael Hackworth, Chairman of the Board of Cirrus Logic Inc., USA points out, "If trust and good ethics are important today, they will be even more crucial in the future. Because of phenomena such as the emergence of a global perspective in all of our institutions and because of the ubiquitous, instant, and anonymous communication afforded by the Internet, unethical excesses can be easily exposed and disseminated — at little or no cost. No longer can leaders prosper at the expense of the common good while they hide behind the barriers of language, geography, or cover-up tactics. In this interconnected world, only ethical leaders and companies will survive."

At final reckoning, corporate ethics is the complex interplay of three different dimensions. The first is the societal/legal norms and mandates. The second is the company's explicit or implicit code of conduct. And finally, the employee making a call on an ethical dilemma has to factor in his own individual values. It is this complexity that makes the subject of business ethics

challenging. The organization's leadership would do well by thinking through the ramifications of their own approach and predilections to this important subject.

In conclusion, it will help the top managers of globalizing Indian companies to remember the lessons from an interesting and relevant parable from India. There were once many fish living happily in a pond. In a particular year, the monsoons were getting delayed. Some sagacious fishes inferred that something was going drastically wrong and suggested that they all undertake an arduous swim through a narrow interconnecting canal to a much larger body of water that had a perennial water source. Many other fish scoffed at this proposal. They said, 'What is the hurry? Why are you getting all worked up? The rains will surely come, and we can continue living in our pond as happily as we did in the past. If they fail to come, we can decide at that time.' The wise fishes left with some other fishes that believed in their assessment of the situation and the planned course of action. They undertook a long and difficult journey through the interconnecting canal to a much bigger water body, when they were still healthy and full of energy to make this journey. The skeptics and cynics stayed behind. As predicted by the wise fishes, the monsoon failed badly that year. With each passing day, the small pond showed sure signs of drying up. The skeptics started to panic. They were getting emaciated as food was hard to come by. Reluctantly they decided to make the long journey through the canal to the larger water body. But alas! It was too late! The canal itself had dried up. And one can guess what happened to them. Leaders of globalizing Indian companies will do well to learn from the wise fishes, as they embark on the journey of business ethics of their own organizations. ♡

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