

# Sustaining Business Ethics

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## Introduction

The behavior and ethics of an organization are two defining characteristics, obvious to all the key stakeholders and critical both to their successful leadership and long term sustainability. Business ethics tries to determine the responsibilities and ethical obligations of business professionals. Ethics is concerned with what is good and right for society.

Business operates within a social and political context. At the same time, business also shapes that context. What are the relationships between business practices, societal expectations and public policy-making? How does business seek to influence public policy-making opinion? How has that influence shaped social outcomes in areas, for example, of distributive justice community development and environmental sustainability? How can we make it better?

The Enron debacle, the demise of Arthur Andersen, questionable practices at Satyam, Tyco, Qwest, WorldCom, and a seemingly endless list of others have pushed public regard for business and business leaders to new lows. The need for smart leaders with vision and integrity has never been greater. Things need to change-and it will not be easy to ensure business ethics that will help all leaders within an organization to:

- Internalize core values
- Build a values-based culture across the organization
- Take action and raise the ethical bar.

A cascade of public distrust - and disgust - has followed ethical transgressions by some of the most visible business leaders, creating trauma on many fronts, none more critical than the need for leaders who can raise the level of business ethics-and spread the word. In some circles, the mere mention of Ken Lay of Enron, Bernie Ebbers of WorldCom, Ramalingam Rajee of Satyam or a host of others - CEOs once heralded for their seeming genius-now elicits fervent cries for jail time and financial castigation.

Business ethics and interest in spirituality within the workplace has grown exponentially in recent years, both from instrumental and normative perspectives. What have we learnt so far? How are the paradigms compatible with one another? How do we manage the demands of the different 'spirits': the spirit of capitalism, the spirit of mother earth, the spirit of religions, the spirit of man, the spirit of Woman-amongst others?

## Ethical Leadership

Jeffrey Immelt of GE said, “Leadership must be about high performance and high values”. Values don’t come from some vacuum, they result from a strong heritage of trust and integrity – an internal transparency of the value of integrity, leaders who have clear points of view on integrity, who can effectively teach them to leaders at all levels of their organization.

It starts with leaders’ getting their stories right. To help people in the organization internalize your core values-to compel their attention, grab them emotionally, challenge them to raise the ethical bar - All business leaders at the beginning of the twenty-first century need to have business ethics, in particular what they will and won’t do values and absolutes for their organization, examples they model, for their employees to follow suit.

Great companies are built on ideas. By passing ideas to others and teaching others how to develop good ideas, leaders create organizations that are fine-tuned to deliver success. These ideas can provide the answer to questions such as ‘where are we going’? What are we aiming to accomplish? Winning leaders articulate values explicitly and shape them to support their business ideas. You have got to find a way to attract people who know how to give back to the environment, and give back to the community, and give back to the workplace.

Winning leaders have a clear set of beliefs and actions for motivating others to buy in to and internalize the values of the organization. Winning leaders are also motivated and they motivate others about change and transitions. Leaders energize others, when they personally interact with them. Great leadership is about making tough yes/ no decisions. Winning leaders face reality, and then make the hard decisions about people, products, businesses, customers, and suppliers.

All successful business leaders must be able to articulate their view on business ethics and drive it through their organization, to engage others to teach the same values and lessons to their people, to build a value-based culture across the organization, to ensure that unlike the situation at Enron and others, everyone knows the ethical line and is neither shy nor silent, if people risk crossing it.

Warren Buffett, CEO, Berkshire Hathway said; “In looking for people to hire, you look for three qualities: integrity, intelligence and energy. And if they don’t have the first, the other two will kill you. You think about it; it’s true. If you hire somebody without the first, you really want them to be dumb and lazy... contemplating any business act, an employee should ask himself whether he would be willing to see it immediately described by an informed and critical reporter on the front page of his local paper, there to be read by his spouse, children and friends. We simply want no part of any activities that pass legal tests, but that we, as citizens,

would find offensive. It takes 20 years to build a reputation, and five minutes to ruin it. If you think about that, you'll do things differently.”

And that only scratches the surface. Yet with so many opportunities and audiences with which to cross the ethical line, attempting to define or legislate proper behavior is impossible. Some legal absolutes can be defined. But real ethical behavior and understanding can only result when the right norms and examples are shared and internalized by organization's leaders. The challenge is for all of us to see the hypocrisy that resides in us and to be in a continual state of closing our integrity gaps. Ken Blanchard once wrote “There is no softer pillow than a clear conscience”.

Swami Vivekananda's saying “First build character, everything will follow” is very much relevant. Since people run business, it is important to ensure ethical behavior at an individual level, only then the collective actions of individuals can result in ethical positive response from the organization as a whole.

Good governance is so much more about ensuring the right behavior than about compliance, and we know one can comply with the letter of a requirement but not its spirit. The most important question that a board can ask is “Are we living up to our values?” if they can be assured that the answer is yes, then they can feel confident that their company is protected against the financial and reputational risks which can destroy a company.

Business person has to operate ethically, with a personal commitment to help renew public faith in business. The core principle is that leaders must be people of integrity who are able to work in teams, understand diversity, and have a clearly developed set of values.

Integrity is one of our core values, and responsibility to ensure we are building a culture of trust with all our stakeholders. We communicate openly and transparently across the organization and have a clear and accessible code of ethics, which are same for all and effectively enforced. Management has to set clear standards of how our people must behave towards each other and how they work, and how they interact with people outside. To reassure that the company is in safe hands, you need to look beyond the procedures to its culture and values.

## **Role of the Corporate Boards**

Boards are starting to look more seriously at corporate behavior, many of them deal with it in passing rather than subjecting it to structured and rigorous enquiry. In all too many cases “behavior” barely makes its way onto board agendas. Behavior and ethics are at the heart of good risk management. Boards should be making sure that employee behavior and attitudes are what they think they are – and what they want them to be.

Few boards get down to the nitty gritty of standards and programmes. Fewer than half tackle the subject specifically – even at committee level. Behavioral and ethical issues are far more likely to get picked up in general discussion rather than deliberation. It often gets left to the audit committee few have ethics committees or it isn't discussed as a defined issue at all. Very few boards give any close

consideration as to how the Code of Conduct is communicated, let alone to the directors' role in ensuring effective communication.

Executives find it difficult to get a handle on attitudes and behavior. It's trickier still for non-executive directors who have only limited contact with the organization and can sometimes end up seeing what people want them to see rather than acquiring genuine insight. And, of course, behavior isn't easy to measure, monitor or evaluate.

The board members understand that an ethical culture is essential for protecting reputation, recruiting and keeping good staff, and long term business success. They know that good ethics is good for business. Boards want their companies to behave ethically. IOD has for long held that boards should explain, as part of their governance report, how they ensure that they, and their staff, live up to the values they set.

While most boards are thinking about ethics and culture, there are relatively few who take active steps to assess their company's ethical health or ensure the desired values are maintained and that behavior is consistent with these values. It is in setting the tone of the organization that directors can have the most impact on the ethical culture of their company. Members of the board must behave with integrity, if they wish their executives and employees to do the same. And if they hope to lead an ethical organization, they should consider the ethical aspects of the corporate strategy they set and what dilemmas it may create for staff. But it also offers a stark statistic, that only three in ten company's offer ethics training for their directors.

Boards focus on such issues, highlights that:

- **Risks to corporate reputation from ethical lapses.**
  - Boards are quite active when it comes to considering the impact of behavioral issues.
- **Sources of risk.**
  - There's less interest in how those risks can arise and how to deal with them. Most boards don't even have informal discussion of the ethical dilemmas which might confront their employees. Only a few consider the issues on which staffs are seeking guidance. All this casts doubt on how directors are evaluating the implications of behavior for risk-taking and risk-mitigation. Legal risks appear to be an exception: like Bribery Act for board oversight of ethical compliance. Boards insist on full ethical due diligence being performed in either merger & acquisition or joint-venture situations.
- **Securing buy-in.**
  - It's not just a question of communication: support and follow-up are needed too. Training is vital, because it's about relating ethics to everyday activities. A board that takes buy-in seriously will make time to discuss this and to understand what the training is achieving.

## Business Ethics

One of the most important 'ingredients' of *Total Quality* in a workplace is **business ethics**, even though very often, both workers and customers doubt the possibility of joining ethics with business. According to John W. Collins, **business ethics** is an oxymoron, which means that two apparently contradictory concepts have been brought together. When saying that **business ethics** is an oxymoron suggests that there are not, or cannot be, ethics in business – that business is in some way unethical, or that it is, at best, amoral. Revelations of corporate malpractice could be considered as perfect example of above comprehension; after all such situations are not part of everyday business activities.

Similarly, it would be wrong to infer that scandals involving corporate wrongdoing mean that the subject of **business ethics** was in some way naïve or idealistic. On the contrary, it can be argued that the subject primarily exists in order to provide us with some answers as to why certain decisions should be evaluated as ethical or unethical, right or wrong. In reference to James O'Toole, "ethics is not about answers. Instead, ethics is about asking questions. It is about asking lots of questions and, maybe, if you are lucky, even asking the right ones every now and then. Ethical organizations do not shy away from asking potentially embarrassing questions, ones that might disturb status quo".

If we search for definition of **business ethics**, we have to ask ourselves what is *morality* and *ethics* itself, so that it would be less difficult to find suitable explanations of that controversial term. In common usage terms *morality* and *ethics* are often used interchangeably. Nonetheless, making a distinction between those two terms brings certain advantages, that is why we could use following definitions:

- Morality is concerned with the norms, values, and beliefs embedded in social processes, which define 'right' and 'wrong' for an individual or a community.
- Ethics is concerned with the study of morality and the application.
- Company business ethics principles statement, stress two objectives:
  1. Improving employee capability for making decisions that are in accord with corporate policy and legal requirements.

2. Giving concrete expression to the company's sense of mission, and its view of the duties and responsibilities that corporate citizenship entails.

Corporate strategy won't work if corporate behavior isn't aligned with it. It's inseparable from good risk management, and from any other aspect of good management. Neglect of behavioral issues – which include attitudes, ethics and culture – can all too easily damage both reputation and share value. Pay close attention to deviations from the norm because these are likely to highlight significant risks. Use these to start building a set of KPIs which can be used to track progress. When we talk of “behavioral KPIs” a range of indicators can be put together to form an overall impression.

## **Teaching Ethics**

Teaching business ethics – Calling for change in the practices of business, requires that we look at what and how we have been teaching business students. Based on the past experiences, how should we approach ethics in a business programme? How will the global financial crisis influence the teaching of business ethics in universities and elsewhere? What do we mean by ‘teaching business ethics’; at all?

Myths in business ethics – dissatisfied with current trends in the field, a growing number of scholar ‘go back to basics’ and reread original texts from philosophers, economists or early management theorists with hopes of clarifying assumptions most take for granted. What assumptions should be questioned? Which myths pervade the business ethics area? How did they form and develop? What could they tell us about ethics, business and people?

Increasingly, business schools in all parts of the world are including ethics issues in the management education. There is greater evidence of awareness and integration of basic ethical principles, while code formulation has become a more dynamic, participatory, and inclusive process.

## **Global Citizenship**

We cannot stress the global citizenship element too strongly. The moral imperative to give back to society is essential for a just society. And as Peter Drucker says, “Citizenship in and through the social sector is not a panacea for the ills of post-capitalist society, but it may be a prerequisite for tackling these ills. It restores the civic responsibility that is the mark of citizenship, and the civic pride that is the mark of community.”

Some have become highly suspicious of the use of ‘ethics’ in business jargon. Endless waves of corporate scandals do little to prove them wrong. Others focus on the positive outcomes that years of civil society lobbying have brought to business practice. Yet others deeply care for the

idea of 'business ethics' and try to maintain a fine balance between market demands and the imperatives to improve society as a whole.

In our long study of leadership and citizenship, we have come to believe that no institution- religious, military, educational, political, or business- can be great unless it has a great leader at the top, with great values and ethics, who teaches and develops leaders at all levels of the organization. The goal is to have leaders at all levels who all teach and develop other leaders.

Undeniably the field of business ethics has grown and changed in recent years. At the turn of the twenty-first century, hopes remained high that corporations could and would embrace more sustainable and responsible management ethics, thereby effecting positive change in society. Many in academia have since worked alongside business practitioners to understand the challenges and opportunities inherent in implementing a new business paradigm-one which is more humane, more socially and environmentally conscious, more inspiring, more spiritual, and more successful in the long-term.

## **Implementing Ethical Practices**

Ethics is no longer 'rhetoric', but the power of insight and courage to create and use ethically desirable means to sustain organizations in an ambience of liberalism and democratic choice. Business ethics are the desired norms of behavior, exclusively dealing with commercial transactions. Values plus knowledge equals ethics.

In a value driven organization profits are not paramount, but are expected to come as a result of the ethical treatment of customers, employees, suppliers and other constituents. The value of ethical conduct in business reflects beliefs in doing the right thing. Are the ethical values underlying the decisions consistent, and in keeping with the highest standards of both the organization and leader?

Companies now recognize that the directors and employees have a central role in upholding the companies ethical standards and code of conduct. There has been a significant increase in company efforts to institutionalize ethics codes, and programs resulting from:

- greater board of directors participation in all phases of the ethics program
- establishing ethics offices, and in many instances, the appointing of an 'Ethics officer'.

Statements of rationale are increasingly common code features. While compliance is statement of 'do's' and 'don'ts', and values are declaration that certain ethics principles are essential to what it means to be an employee or representative of the company. The utilization of ethical decision-making procedures enables managers to act in a manner that is morally consistent with principles that are at the core of corporate identity. Ethical decision making requires an

employment environment of trust, that is free from reprisals for employee decisions and actions taken in good faith.

Notwithstanding the opposition to strong ethics programs, company commitments and involvement is growing. Company efforts to institutionalize the formulation, dissemination, implementation, and monitoring of business ethics principles are no longer a largely US phenomenon. Becoming worldwide in scope means becoming multi-cultural - Ethical values are precisely where men and women come together. Companies now use a wide variety of compliance packages and social audits to reinforce their ethics initiative. It is a never ending challenge to make sure that mix of honesty, candor, and judgment are in equilibrium.

The tug to conform to organizational norms can breed conflict between doing what is 'ethically right' and doing what the company sees as normal and expected. Values take on growing importance, as an organization matures. The rapid pace of industrialization of business has been confronting companies with the formidable challenge of formulating and implementing global business practice standards and monitoring them worldwide for effectiveness. Many NGOs are now ever demanding that issues such as environmental responsibility, fair labor practices, anti-corruption and safety be addressed.

Organizational psychology talks of getting in touch with emotions for changing 'attitudes' and 'behavior'. Values are essential for becoming - skills are necessary for doing. Values relate to inner world, skills to the outer. This is where a holistic, integral, robust and time-tested model of the human, becomes the right starting point; the current benchmark. Durable, long - term effectiveness depends equally, if not more, on the practice of sound human values.

Jack Welch, Retd CEO, GE said: " The first and most important of our values ie. Integrity, means always abiding by the law, both in letter and the spirit. But it's not just about laws; it is at the core of every relationship we have. Inside the company, integrity establishes the trust that is so critical to the human relationships that make our values work. With trust, employees can stretch performance goals and can believe us when we promise that falling short is not a punishable offense. Our commitment to integrity, which beyond doing everything right, mean always doing the right thing".

Getting business's ethical house in order starts with people. Consider that ethical transgressions can occur on countless levels. We look at two variables: the environment and the person. Consider how your ethical miscues can affect people - employees, colleagues and superiors, suppliers, customers, internal regulators (lawyers, auditors, the board of directors), external regulators (government, interest groups, and the like), shareholders, or the public at large in your community. You can affect any or all, separately or combined, consciously or not. And you can have an impact on how they think of you in numerous ways - through corporate citizenship, product quality, your business plans and strategy, how openly and candidly you



communicate, by the clarity of your business reviews and reports-internally and externally, by the transparency of your financial and other public statements. You certainly have an impact on your image if you commit premeditated fraud or deceit, or even violate criminal laws. These can be acts of commission-or acts of omission, venial-in the moral theologian's view-or mortal.

## Conclusion

The last decades have seen the bringing down of the iron curtain, increased awareness amongst civil societies, and professionalism in management, globalization & demand for accountability in all spheres of life. Changes like opening up of economy, ascertaining of rights by citizens , right to information , rapid economic growth , emergence of Indian MNC s and India emerging as world's knowledge power. The rapid proliferation of information and communication technologies has lead to a global diffusion of ideas & practices, enabling the public to demand higher standards of ethics, transparency and accountability. This has led to emergence of good governance systems which would be more sustainable, responsive, transparent, and citizen-centric.

Better governance has to lead to sustainable development, responsive to public policies, with higher levels of public sector performance & system changes. There have been several instances where management processes have been reduced substantially through systemic reforms. However, still lot need to be done to combat corruption. This paper has highlighted, the following:-

- How company behaves in a pinch usually comes down to its core ethics. By openly discussing the challenges, an organization faces and the values it stands for, ethics get cemented with the culture of the organization to drive behavior when it counts.
- Citizenship activities can reinforce the ethical commitments of both leader and the organization, putting some of the most challenging dilemmas in life.
- Today's business leaders must fight to win the renewed support of a skeptical public-not through new products or fads, or other manipulations –but with foundations of ethical absolutes, the world can trust.

Today, the field of ethics in management is more relevant than ever before and ethical standards are highly regulated in most of the countries. In numerous conventions, different issues relating to codes of ethics, fight against corruption, fight against fraud and organized crime, governmental strategies to support ethical standards, etc. are being discussed. Organizations like Transparency International, the global civil society organization, etc., are leading the fight against corruption; bringing people together in a powerful worldwide coalition to create change towards a world free of corruption, bring order in public administration, besides setting standards.

