CHAPTER - I

INTRODUCTION

Business ethics, once considered an oxymoron, has now become a fundamental part of the decision making process within an organization.

Sri Vittal, former Chief Vigilance Officer (1999) observed:

Issues connected with business ethics have recently acquired prominence in the changing business scenario. The anxiety of global investors in emerging markets is not only about the quality of management but also the ethical framework for decision-making and the collapse of the South East Asian countries has stressed the issue further.

WHAT IS BUSINESS ETHICS?

According to John Donaldson (1989), Business ethics in short can be described as:

A systematic study of moral (ethical) matters pertaining to business, industry or related activities, institutions, or practices and beliefs.

In defining business ethics Laura Nash (1990) observed that the moral standards of business are not different to that of an individual.

It is the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system.

Similar view was voiced by Strenberg (1994). He also opined that ethics mainly refers to distributive justice in deciding the business activities.

Business ethics applies ethical reasoning to business situations and activities. It is based on a combination of distributive justice - that is, the issuing of rewards for judgment that is placed on all activities.
Organizational ethics refers to the rightness of the decisions and behaviours of individuals and the organizations of which they are a part. The definition of Buchholz and Rosenthal (1998) highlights this.

Business ethics is the study of moral standards and how they apply to the systems and organizations through which modern societies produce and distribute goods and services, and to the people who work in these organizations.

In interpreting business ethics, Carroll and Buchholtz (2001), view that the concept of business ethics has become relative and includes grey areas of right and wrong.

Organizational ethics is concerned with good and bad or right and wrong behaviour and practices that take place within a business context. Concept of right and wrong is increasingly being interpreted today to include the more difficult and subtle questions of fairness, justice and equity.

From the above definitions, which echo similar views on ethics with minor shades of difference, it can be concluded that business ethics is related to-

- morally right and wrong behaviour,
- in the business context,
- including questions of fairness, justice, and equity,
- that require application of moral standards by persons in the organizations, and
- the moral standards are not separate, but derived from society.

ETHICAL DECISION MAKING

The ethical decision making and behaviour of individuals in the organization are influenced by various factors which can be classified into three major headings namely: a) Intrinsic variables, b) Extrinsic variables and c) Moral issue related variables (Sunil Kumar Maheswari and M P Ganesh, 2006). Ethical decision making process can be viewed as a system influenced by several components as given under:

- Ethical issues (ethical dimension in a given problem or opportunity),
- Principle(s) guiding ethical decision making,
- Managerial concerns in an organization,
- Environmental factors like culture, legal frameworks etc., and
- Personal characteristics of decision maker.
(1) Ethical issues

Within an organization, one would find a broad spectrum of ethical issues based on the functions of a business organization like Strategy management, Financial management, Human resource management, Marketing management and Production management.

- **Corporate Strategy** issues like selection of the type of plant, technology, decisions like reconciling the expectations of different stakeholders in formulating and developing strategies, the role of business in society and in the economy, corporate social responsibility, and ethical issues at the individual level in organizations.

- **Finance and Accounting** issues like insider trading, hostile takeover, acquiring non-performing assets through surplus funds, fixing swap ratio in favour of a big acquiring firm, green-mailing and transfer pricing. Value maximization of the owners, has its limitations and is often in conflict with the traditional concept of morality.

- **Human Resource Management** issues related to dealing with unions and labor negotiations; responsibilities to employees like safety and occupational health hazards, managing cross cultural teams, workforce diversity, gender equality, privacy of employees, impact of new technology on employees and their families, fair compensation, proper working environment, enforcing ethical standards in the workplace, resolving conflicts of individual employee values and of organizations through systematic training, creating an equitable and empowering corporate culture etc.

- **Marketing Management** issues, often culture specific, such as marketing of baby milk in developing countries, misleading or deceptive advertisements, the effect of advertising on children, bait and switch, puffery, the connection between packaging and the environment, whether the poor really pay more, etc.

- **Production and Operations Management** issues like impact of technology on employees, process safety, quality of production, pollution, etc.

Another way of categorizing ethical issues is:

- Monetary issues like dumping, price fixing, bid rigging, embezzlement and expense account padding.

- Behavioural issues like corporate espionage or leakage of sensitive information to business rivals, discrimination and harassment.
(2) Principles guiding ethical decision making

Ethical issues involve dilemmas and managers require some sort of guidance in resolving them. Many theoretical approaches to guide ethical decisions and behaviour have been evolved. The theories of business ethics which explain approaches to ethical decision making fall into two groups, one based on traits another based on methods of reasoning.

(a) Virtue ethics

Virtue ethics theories maintain that the habitual development of sound character traits determine the ethical value of persons. Individual character, work character and professional character are covered by these theories. It focuses on improving the character or traits of the agent.

Virtue theorists try to identify the list of virtues and give an account of each. They also explain why they are important. Plato and Aristotle pursued the questions: What is a good person? What are the virtues associated with a good person? For the Greeks virtue meant excellence, and ethics was concerned with excellence of human character. The list of possible virtues is long and there is no general agreement on which is most important. Aristotle, in his Nicomachean Ethics, espouses moral virtues, such as courage and truthfulness. Other often stated virtues are: honesty, generosity, tolerance and self control. The virtues are dispositions to find the golden mean between two extremes and help us find happiness and fulfillment.

(b) Ethical reasoning

Two distinct sets of theories of business ethics are found as given under:

- Teleological ethics theories maintain that good ends and/or results determine the ethical value of actions (Eternal law, Hedonism, and Utilitarianism).
- Deontological ethics hold that fulfilling obligations, responsibly following proper procedures, doing the right thing and adhering to moral standards determine the ethical value of an action (Universalism, Distributive justice and Liberty).
A brief of the six theories under the two categories is presented here.

i). Eternal law

Many church leaders and some philosophers (Thomas Aquinas and Thomas Jefferson among them) believe that there is an Eternal Law, incorporated in the mind of God, apparent in the state of Nature, revealed in the Holy Scripture, and immediately obvious to any man or woman who will take the time to study either nature or the scripture.

Religious leaders tend to emphasize the revealed source of the truth more than the reasoned nature, but they also believe that the state of the Law is unchanging, and that the rights and duties are obvious: if we are to be loved, then we must love others. This reciprocal exchange is summarized in Christian theology by the Golden Rule; “Do unto others as you would have others do unto you”.

Thomas Jefferson, really the first of the secular humanists, believed that the truths of this law were “self-evident,” in his famous phrase, that the rights were “inalienable,” and that the duties could easily be derived from the rights. If people had rights to “life, liberty and the pursuit of happiness,” then they had obligations to ensure those rights to others, even if this meant revolution against the British Crown.

The philosopher David Ross qualifies that sometimes duties arise from our special relationships in life, and they are not absolute. Our character as well as our circumstances, therefore determines what our actions are.

- **Golden rule principle**: You act on the basis of placing yourself in the position of someone affected by the decision and try to determine how that person would feel.

ii). Hedonism /Egoism

It refers to the self serving philosophy of individuals who seek to maximize their pleasure in the world in which they live. The following three ethical principles attempt to justify self-serving decisions and behaviours.

- **Hedonist Principle**: You do whatever is in your own self-interest, but not clearly illegal.
• *Might-equal-right principle:* You do whatever you are powerful enough to impose without respect to ordinary social conventions and widespread practices or customs, but not clearly illegal.

• *Organization interest's principle:* You act on the basis of what is good for the organization and the achievement of its goals, but not clearly illegal.

(iii). **Utilitarianism**

The utilitarian view of ethics says that ethical decisions are made solely on the basis of their outcomes or consequences. It focuses on net consequences and not individual intentions. It is termed 'Utilitarianism', a philosophy originated by Jeremy Bentham (1748-1832), a British thinker.

The name of the philosophy is derived from the word utility, which had an eighteenth-century meaning that referred to the degree of usefulness of a household object or a domestic animal; that is a horse could be said to have a utility for plowing beyond the cost of its upkeep. Utility has this same meaning, and this same derivation, in microeconomic theory; it measures our degree of preference for a given good or service relative to price.

This theory advocates that a good course of action as being that which brings the greatest amount of good over bad, both over the long term and the short-term. It uses a quantitative method for making ethical decisions by looking at how to provide the greatest good for the greatest number. The use of a cost and benefit analysis is one of the ways in which one can make a decision.

The basic principle is:

Every one ought to act so as to bring about the greatest amount of happiness for the greatest number of people.

The utilitarian principle provides a decision procedure. When you have to decide what to do, you should consider the happiness – unhappiness consequences that would result from your various alternatives. The alternative that produces the most overall net happiness is the right action.
Utilitarians have recognized the difficulty in making cost benefit analysis in all cases.

- Some times we must act quickly
- Some times consequences are impossible to foresee
- Sometimes consequences are difficult to measure or quantify

To save time, and to avoid the need to compute the full consequences of every decision and action, most Utilitarians recommend the adoption of simplifying rules. Rule utilitarians argue that we adopt rules that, if followed by everyone, would, in the long run, maximize happiness. Examples of utilitarian rules are:

- Be honest
- Tell truth
- Do your duty
- Keep your promises
- Don’t reward behaviours that cause pain to others.

Act utilitarians, put the emphasis on individual actions rather than rules. ‘Act’ in these ways to bring happiness to people. Rule utilitarians believe that rules are universally applicable and take them to be strict. However, act utilitarianism regards rules as rules of thumb general guidelines. They are at best relative, as they have varying implications depending on the situation.

- Use of water - Putting water in swimming pools and watering lawn is right in a water-abundant situation and wrong in an environment in which water is scarce. Therefore, rules to be effective should be flexible and changing with the times.
- Divorce - Rules and laws that break marriage bonds are unknown earlier. To day they are found in many societies.
- Lying - It is wrong as per the rules, but lying may some times bring happiness without harm. A sick husband may lie to his wife so as not to create stress in her. However, lying in all cases is not good. It destroys the trust between the husband and wife.
Both act and rule principles can be used to formulate a decision-making procedure for figuring out what one should do in a situation. In fact, the principles can be used to determine and evaluate the laws of a society. Law against killing, stealing, fraud, breaking contracts and so on, can be justified on utilitarian grounds. Laws are criticised when they fail to produce net good consequences. The debate on changing the law examines alternative approaches that maximize the good and minimize the harm.

- **Means-end principle:** You act on the basis of whether some overall good justifies any moral transgression, but not clearly illegal.

- **Utilitarian principle:** You act on the basis of whether the harm inherent in the decision is outweighed by the good in it, but not clearly illegal.

iv). **Universalism: A Deontological Theory**

The deontological approach is the reverse of teleological theory. The term deontology is derived from Greek word *deon* (duty) and *logos* (science). Etymologically, then deontology means the science of duty. Deontology says that individuals are valuable in themselves, and not because of their social value. Further they argue:

1. The capacity for rational decision making is the most important feature of human beings.
2. We are moral beings, because we have the capacity to give ourselves rules and laws and to follow them.
3. What morality requires is that we respect each other as valuable persons in themselves. We should refrain from valuing them only as aids, facilitators or means to our ends.
4. Happiness is not the only end. Humans seek a variety of goals.

*It emphasizes on intentions and not outcomes* - It states that the moral worth of an action cannot be dependent upon the outcome because those outcomes are so indefinite and uncertain, at the time the decision to act is made; instead, the moral worth of an action has to depend upon the intentions of the person, making the decision or performing the act.
**Intentions guide actions** - Personal intentions can be translated into personal duties or obligations because, if we truly wish the best for others, then we will always act in certain ways to ensure beneficial results.

**Actions become duties** - The theory states that these ways of actions become duties that are incumbent upon us, rather than the choices that are open to us. It is our duty to tell the truth; it is our duty to adhere to contracts; it is our duty not to take property that belongs to others. In teleological theory, these are the actions that bring the greatest benefits to others.

**Duties are universal** - Our personal duties are universal, applicable to everyone and consequently deontological theory is also termed as 'Universalism'. The common law is a form of Universalism: Everyone, who secured a loan, should repay it and no one, needing money, should rob banks.

**Treat others as ends** - The first duty of Universalism is to treat others as 'ends' and not as 'means'. Other people should be seen as valuable ends in themselves, worthy of dignity and respect, and not as impersonal means to achieve our own ends.

**Categorical Imperative** - Immanuel Kant (1724-1804) proposed a simple test for personal duty and goodwill. The test is to ask yourself whether you would be willing to have everyone in the world, faced with similar circumstances, forced to act in exactly the same way.

'Never treat another human being merely as a means but always as an end'

This is the Categorical Imperative; "categorical," of course, means absolute or unqualified, and the precept is that an act or decision can be judged to be "good" or "right" or "proper" only if everyone must, without qualification, perform the same act or reach the same decision, given similar circumstances.

The two formulations by Kant, in his words:

1. To act only in ways that I would wish all others to act, faced with the same set of circumstance, and
2. Always treat other people with dignity and respect.
The first version says that what is morally right for me must be morally right for others. Everyone is of equal value. If this is so, then no person’s rights should be subordinated to those of anyone else. If that is so, then we must treat people as free and equal in the pursuit of their interests.

For example, when I start a business, success is my goal. I hire employees to work in my company to achieve the success. If I make them work for longer hours and extract heavy work ignoring their well being, I can improve my success, but it is exploitation. It is unfair because I have used people as a means to the end (success).

Take another example, when a researcher assures confidentiality of information, is he justified in hiring research assistants to process the responses?

No, because he is violating a promise.

Will he be right when individual responses are secretly coded?

Yes, because he is not using respondents as objects but as humans and treating their concerns with respect.

A related principle that helps managers in decision making therefore is:

- Professional standards principle: You act on the basis of whether the decision can be explained before a group of your peers, but not clearly illegal.

v). Distributive Justice

In 1971, John Rawls, a Professor at Harvard University, examined the distributive justice in his book “A Theory of Justice”. It is explicitly based upon the premise of a single value: justice. Justice is felt to be the first virtue of social institutions; our laws and institutions, no matter how efficient or accepted, must be reformed or abolished if they are unjust. Professor Rawls proposes that society is an association of individuals, who co-operate to advance the good of all. Therefore the society and the institutions within that society are marked by conflict as well as by collaboration.

The collaboration comes about, since individuals recognize, that joint actions generate much greater benefits than solitary efforts; the conflict is inherent because
people are concerned by the just distribution of those benefits. Each person prefers a greater to a lesser share and proposes a system of distribution to ensure that greater share. The alternative systems are:

(i) *Absolute equality* - They would not select absolute equality in the distribution of benefits, Professor Rawls argues, because they would recognize skills; develop greater competences, and so on.

(ii) *Absolute inequality* - They would not agree to absolute inequality based upon effort, skill or competence because they would not know who among them had those qualities and consequently who among them would receive the greater and the lesser benefits.

(iii) *Conditional inequality* - Instead, they would develop a concept of conditional inequality, where differences in benefits had to be justified, and they would propose a rule that those differences in benefits could be justified only if they could be shown to result in compensating benefits for everyone, and in particular for the members with least advantage in their society. That is, the distribution of income would be unequal, but the inequalities had to work for the benefit of all, and they would work for the benefit of all by helping in some measure, the least benefited, who would then continue to contribute and co-operate.

Rawls, understands that individuals are self interested. Therefore, they will be influenced by their own experiences and their own situations when they think about fair arrangements. This may result in injustice favouring the powerful and influential ones.

Smart people would want rules that favoured intelligence.

Strong people would want a system that rewarded strength.

Justice will be possible only when individuals take decisions behind the veil of ignorance with regard to their own characteristics (intelligence, strength, etc). Rawls argues that individuals in their original position (unaware of characteristics) would agree to two rules, they are:

1. *Liberty* – Each person should have an equal right to the most extensive basic liberty compatible with a similar liberty for others.
2. Opportunity – Social and economic inequalities should be arranged so that they are both:

   a. Reasonably expected to be to everyone’s advantage, and
   b. Attached to positions and offices open to all.

Theory of justice suggests, framing and enforcing rules fairly and impartially by following a suitable base of distribution consistent with legal rules and regulations. Modern economic systems make use of distributive systems that have five very different bases as given in the Exhibit 1.1.

**Exhibit 1.1 Methods of Distributive System**

<table>
<thead>
<tr>
<th>Method</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>to each person equally</td>
<td>public education</td>
</tr>
<tr>
<td>to each according to his or her need</td>
<td>welfare payments</td>
</tr>
<tr>
<td>to each according to his or her effort</td>
<td>sales commissions</td>
</tr>
<tr>
<td>to each according to his or her contribution</td>
<td>public honors</td>
</tr>
<tr>
<td>to each according to his or her competence</td>
<td>managerial salaries</td>
</tr>
</tbody>
</table>

The distributions are justified by the principle of equity.

- **Distributive justice principle**: You act on the basis of treating an individual or group equitably rather than on arbitrarily defined characteristics, but not clearly illegal.

vi). Personal Liberty and rights

The theory of Personal Liberty is proposed by Robert Nozick, a member of the Harvard faculty. This system is based upon the primacy of a single value, ‘liberty’. Liberty is thought to be the first requirement of society. An institution or law that violates individual liberty in making choices, even though it may result in greater happiness and increased benefits for others, has to be rejected as being unethical. Professor Nozick argues as follows:
Society is an association of individuals and co-operation between those individuals is necessary for economic gain. The co-operation comes about as a result of the exchange of goods and services. The exchanges can be considered to be “just” as long as they are voluntary. Non-voluntary exchanges, based upon the use of social force or other coercive means, are unjust. Individuals must be allowed to make informed choices among alternative courses of action leading towards their own welfare. Those choices are “just” or “right” or “proper” as long as the same opportunities for informed choices are extended to others. Justice depends upon equal opportunities for choice and exchange, not upon equal allocations of wealth and income.

The principle that helps managers in decision making is:

- Disclosure principle: You act on the basis of how the general public would likely to respond to the disclosure of the rationale and facts related to the decision, but not clearly illegal.

Rights theory, is concerned with respecting and protecting individual liberties and privileges such as the right to privacy, freedom of conscience, free speech, life and safety and due process. This would include, for example, protecting the free speech rights of employees who report legal violations by their employers and refusal of overtime when needed.

Rights are positive and negative. Negative rights are rights that require restraint by employers. Employer should refrain from exploiting employees. Positive rights, on the other hand, imply that others have a duty to do something to or for the right holders. Employers have to create rules and regulations that facilitate a fair day’s work with a fair day’s pay and a climate of participation. Positive rights are more controversial than negative rights because they have implications that are counter-intuitive. Positive rights include better wages, good welfare facilities, sound training, proper supervision and right environment. Rights are legal and moral. Legal rights are rights that are created by law. Moral rights are claims that are independent of law. Utilitarian arguments generally tend to recognize a legal right. Rights are deeply rooted in the tradition of social contract theories. Humans agree to do things for a consideration. The agreement (social contract) creates obligations that are moral and legal.
The appropriate principle that aids managers in decision making is:

- **Principle of Individual Rights:** This behaviour gives due respect to the rights of all the affected persons in terms of the basic human rights.

The Rights based theory by John Locke states that human beings have duties because they have rights. Liberty is related closely with life in a community of people. Negative rights, on the other hand, place duties on other people not to interfere with one's life. One may also talk of having rights to certain goods and services, health care, a clean environment or education.

_Which one?_

There are six major ethical systems, as summarized in Table I.2. Each ethical system expresses a portion of the truth. Each system has adherents and opponents. And each, it is important to admit, is incomplete or inadequate as a means of judging the moral content of individual actions or decisions. What does this mean to managers?

Moral reasoning of this nature, utilizing all five ethical systems, is not simple and easy, but it is satisfying. It does work. In case of corporate businesses, their performance in ethical terms can be identified by factors such as: the nature of business, the availability and use of information, participation, employment relationships, connections with the government in power, attitudes to their staff and customers and society (degree of autonomy, warmth, support etc.) Since ethical issues pervade in all aspects of organizational activities and performance, it will be necessary to identify the nature of all the legitimate interests of all those concerned with corporate governance.
### Exhibit 1.2 Summary of Major Ethical Systems

<table>
<thead>
<tr>
<th>Theory</th>
<th>Guiding question</th>
<th>Nature of the Ethical Belief</th>
<th>Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eternal Law</td>
<td>Is the decision based on natural human duties and rights of decision maker?</td>
<td>Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers.</td>
<td>Golden rule</td>
</tr>
<tr>
<td>Hedonism/egoism</td>
<td>Does a given decision give maximum benefit to self or organization?</td>
<td>Moral standards are self-serving. Maximum benefit to self or organization.</td>
<td>Hedonist principle, Might equal rights principle, Organization interest's principle</td>
</tr>
<tr>
<td>Utilitarian Theory</td>
<td>Does a given decision result in greater benefits than damages for society as a whole, not just for our organization as part of that society?</td>
<td>Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people.</td>
<td>Means-end principle, Utilitarian principle</td>
</tr>
<tr>
<td>Universalist Theory</td>
<td>Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances?</td>
<td>Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances.</td>
<td>Professional standards principle</td>
</tr>
<tr>
<td>Distributive Justice</td>
<td>Will the decision lead to social cooperation?</td>
<td>Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotes individual self-respect, which is essential for social cooperation.</td>
<td>Distributive justice principle</td>
</tr>
<tr>
<td>Personal Liberty</td>
<td>Will the decision increase or decrease the liberty of others to act? Is the decision protecting the rights of others?</td>
<td>Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for social productivity.</td>
<td>Disclosure principle Principle of individual rights</td>
</tr>
</tbody>
</table>

Managerial concerns

In respect of organizations, three managerial approaches are identified. They are briefly outlined here.

- **The stockholder theory** holds that managers are agents of the stockholders, and their only ethical responsibility is to increase the profits of the business without violating the law or engaging in fraudulent practices (legal and economic approach).

- **The social contract theory** states that companies have ethical responsibilities to all members of society, which allow corporations to exist based on a social contract. What to do? The first condition of the contract requires companies to enhance the economic satisfaction of consumers and employees. They must do that without polluting the environment or depleting natural resources, misusing political power, or subjecting their employees to dehumanising working conditions. What not to do? The second condition requires companies to avoid fraudulent practices, show respect for their employees as human beings, and avoid practices, which systematically worsens the position of any group in society. The theory, proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view on ethics is based on the integration of two “contracts”; the general social contract that allows businesses to operate and defines the acceptable ground rules, and a more specific contract among members of community that addresses acceptable ways of behaving. For instance, in deciding what wage to pay to workers in a new factory in CPCL, Chennai would base the decision on existing wage levels in the community (Social approach).

- **The stakeholder theory** maintains that managers have an ethical responsibility to manage a firm for the benefit of all of its stakeholders, which are all individuals and groups that have a stake in or claim on a company. Sometimes the term is broadened to include all groups who can affect or be affected by the corporation, such as competitors, government agencies, special interest groups, and the media. Balancing the claims of conflicting stakeholders is obviously not an easy task for managers. It requires balancing political, legal, economic, technological and social factors (Integrated approach).
(4) Environmental factors

A set of studies explored the influence of environmental factors on ethical attitudes (Brown and King 1982, Mayo 1981, Smith and Oakley 1994). Among the internalized factors, norms, pressures from community and peers exerted the greatest influence, while the fear of punishment was the least influential. With regard to the externalized factors, competition received the highest rating on the positive and the negative influence scales.

The situational approach asserts that the situational aspects such as organization's reward system, peer influences, the influence of superiors and organizational norms (Trevino and Youndblood, 1990), philosophy of the top management (Arlow and Ulrich, 1980), managerial behaviour (Nielsen, 1988), firm's reinforcement system (Hegarty and Sims, 1979), the nature of issue involved (Bhal, 2000) and job dimensions (Trevino, 1986) have a demonstrable effect on the ethical decision-making behaviour of the individuals.

(5) Personal characteristics

Ethical attitudes are "the product of personal values, experiences and the environment in which one works and lives" (Donaldson and Dunfee, 1999). The subject of cognitive moral development has received much attention in the ethics literature. Individuals develop a network of ethical norms and principles through the process of socialization (Kohlberg, 1983), which constitutes their ethical philosophy and affects their decision-making in situations involving an ethical component. The ethical personality is influenced by four factors:

- cognitive moral development,
- ego strength,
- locus of control, and
- Machiavellianism.

Cognitive moral development refers to an individual's level of moral judgment. Research (Kohlberg, 1976) confirms the existence of three levels of moral development, each composed of two stages.
### Exhibit -1.3 Stages of Moral Evolution

<table>
<thead>
<tr>
<th>Stages of Morality</th>
<th>Illustrative Behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level I: Pre-conventional morality</strong></td>
<td></td>
</tr>
<tr>
<td>Stage 1</td>
<td>Punishment orientation</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Reward orientation</td>
</tr>
<tr>
<td><strong>Level II: conventional morality</strong></td>
<td></td>
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<tr>
<td>Stage 3</td>
<td>Good-boy/good-girl orientation</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Authority orientation</td>
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<tr>
<td><strong>Level III: Post-conventional morality</strong></td>
<td></td>
</tr>
<tr>
<td>Stage 5</td>
<td>Social-contract orientation</td>
</tr>
<tr>
<td>Stage 6</td>
<td>Ethical principle orientation</td>
</tr>
</tbody>
</table>

Ego strength is a personality measure of the strength of a person's convictions. People who score high on ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right. Managers with high ego strength are expected to be more consistent in their moral judgments and moral actions than with low ego strength.

Locus of control is a personality attribute, which measures the degree to which people believe they control their own fate. People with an internal locus of control believe that they control their own destinies; those with an external locus believe that what happens to them is due to luck or chance. Research (Blasi (1980), Trevino and Youngblood (1990) and Dozier and Miceli (1985)) has demonstrated that individuals with high internal locus of control exhibit more ethical behavior when making organizational decisions than the individuals with high external locus of control.

Machiavellianism, as a personality trait, Machiavellianism refers to the use of deceit in relationship, and manipulating others. Niccolo Machiavelli was a sixteenth-century Italian philosopher and statesman whose best-known writing includes a set of suggestions for obtaining and holding governmental power. He published a book called The Prince. The book deals with strategies to manipulate people to retain power.

ETHICAL DECISION MAKING MODELS

Ethical decision making is not a simple process but rather a multifaceted process which is complicated by the characteristics just described. Carroll and Buchholtz, (2003) model shown in Figure 1.1 identifies the decision making process as influenced by ethical screen with three variables that filter decision making: Conventional norms, principles and tests.

Hunt-Vitell, (1986) developed a theory that provides a general model of ethical decision making that would draw on both the deontological and teleological ethical traditions in moral philosophy. This model as shown in Figure 1.2 addresses the situation wherein an individual confronts a problem perceived as having ethical content. This perception of an ethical problem situation triggers the process depicted by the model. If the individual does not perceive some ethical content in a problem situation, subsequent elements of the model do not come into play.
Figure I.1 A Process of ethical decision making

Identify action, decision or behaviour you are about to take

Articulate all dimension of proposed action, decision or behaviour

Ethics Screen:

**Conventional Approach**
- Standards/Norms
  - Personal
  - Organizational
  - Societal
  - International

**Principles Approach**
- Ethical Principles
  - Justice
  - Rights
  - Utilitarianism
  - Golden Rule
  - Virtue
  - Caring

**Ethical Tests Approach**
- Ethical Tests
  - Common Sense
  - One's Best Self
  - Public Disclosure
  - Ventilation
  - Purified Idea
  - Gag test

Course of action passes ethics screen

Engage in course of action

Repeat cycle when faced with new ethical dilemma

Course of action fails ethics screen

Do not engage in course of action

Identify new course of action

Figure 1.2 Hunt - Vitell model of ethical decision making

Cultural environment
a. Religion
b. Legal system
c. Political system

Professional environment
a. Informal norms
b. Formal codes
c. Code enforcement

Industry environment
a. Informal norms
b. Formal codes
c. Code enforcement

Organizational environment
a. Formal norms
b. Formal codes
c. Code enforcement

Personal characteristics
a. Religion
b. Value system
c. Belief system
d. Strength of moral character
e. Cognitive moral development
f. Ethical sensitivity

Perceived ethical problem

Perceived alternatives

Deontologic al norms

Deontologic al evaluation

Ethical Judgments
Intentions
Behaviour

Action control

Probabilities of consequences

Desirability of consequences

Technological evaluation

Importance of stakeholders

Actual consequences

INTEGRATING ETHICS WITH OTHER POLICIES

A view, gaining increasing acceptance in recent years is one that upholds ethical behaviour as the best long term strategy for an organization. However, this does not mean that, doing what is ethical will always be beneficial to an organization. There may be occasions when ethical behaviour is punished and unethical behaviour is rewarded. Therefore, to say that ethical behaviour is the best long term business strategy means that in the long run, ethical behaviour can give a company, competitive advantage over other companies that are not ethical. (Velasquez, 2002)

BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

A company’s core values and codes of ethical behaviour should underpin everything that the business does. How a company then chooses to interact with its global and local communities in the light of its values and ethics is often known as ‘Corporate Responsibility’ or ‘Corporate Social Responsibility’ (CSR). The Institute of Business Ethics defines CSR as:

The voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its principal stakeholders.

Almost all the Indian companies today claim that they are undertaking some sort of social responsibilities. Two cases are cited here to illustrate the point.

1) Tata Steel

Tata Steel, the flagship company of the Tata Group, earmarks 12-14 per cent of its profit after tax for welfare activities. Today, Tata Steel’s CSR initiatives are spread across diverse areas such as environment management, employee relations, economic development, civic amenities and community services, population management, sports and adventure, healthcare, response to natural calamities, education, arts and culture and social welfare. To achieve the desired objectives, Tata Steel supports various social welfare organizations. These include Tata Steel Rural Development Society, Tribal Cultural Society, Tata Steel Foundation for Family Initiatives, National Association for the Blind, Meherbai Tata Memorial Cancer Hospital, Shishu Niketan, School of Hope, Centre for Hearing Impaired Children and the Indian Red Cross Society, East Singhbhum.
(ii) Infosys

'Infosys foundation', the philanthropic arm of Infosys Technologies Ltd, came into existence on 4th December 1996 with the objective of fulfilling the social responsibility of the company by supporting and encouraging the under privileged sections of the society. In a short span of time, the foundation has implemented a number of projects in its chosen areas. The Foundation has undertaken various initiatives in providing medical facilities to remote rural areas, organizing novel pension schemes and in aiding orphans and street children. It has undertaken a large rural education programme titled "A library for every school" under which 5500 libraries have been set up in government schools spread across many villages. Other activities of the foundation include the reconstruction of old school buildings, setting up of rural science centers and schemes to provide support to dying traditional art and cultural forms.

BUSINESS ETHICS AND CORPORATE GOVERNANCE

Companies are increasingly being required by both regulatory authorities and by their shareholders to operate efficiently, responsibly and ethically. How companies – especially those that are in public trade – meet these requirements has a direct impact on public confidence in the free market system.

Corporate governance is defined by Sheik and Chatterjee (2001) as:

distribution of rights and responsibilities among different participants in the organization, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

Deputy managing director A. N. Singh defines the Tata Steel approach,

Corporate governance is the ethical and responsible behaviour of a corporation towards its owners, its shareholders, but it has a fallout effect on other constituents too.

Corporate governance, therefore, is concerned with establishing a system whereby the directors are entrusted with responsibilities as well as duties in relation to the direction and day to day operation of a company’s affairs. It is also founded on the system of accountability, primarily directed towards the shareholders, in addition to maximizing the shareholder’s welfare in the long-term.
(i) Tata steel

Union Ministry of Finance awarded the Tata Steel Company ‘the national award for excellence in corporate governance’ in 2000. Two years later Tata Steel bagged the golden peacock award for excellence in corporate governance and corporate social responsibility from the Institute of Directors, an apex association of company directors. Tata Steel has a three-pronged governance structure that provides for checks and balances throughout its operation.

• First layer of this structure is the ‘law of the land’. Statutes on the number of non-executive and independent directors, board procedure, and terms of office are followed with rigour.

• Second layer is ‘ethics and compliance committee’. As stipulated by the code, and this comprises, among other things, labor welfare measures like the eight-hour working day, leave with pay, provident fund, gratuity and profit sharing.

• Third layer is ‘communication’. To ensure that a culture of self-motivated ethics percolates to the rank and file, Tata Steel lays plenty of emphasis on communication. The office of the ethics counselor executes this vision. Ethics counselor, Rekha Seal says “We manage with trust. We start with the belief that everyone is honest, but if we find that someone has flouted rules we take decisive and immediate action. This is important because trust is the foundation of our name and our brand.”

(ii) Infosys

Among the top ten companies in Asia that scored an average of 81 per cent in corporate governance (CG), Infosys is at the top and Wipro is at the fourth position in 2004. The Infosys technologies, consistently one of the highest CG score companies in India is ahead of prevailing CG norms and has implemented most of the reforms even before they became mandatory.

Till today its disclosure standards are among the best in the entire industry. Also, it provides the most comprehensive manpower data like age profiles, experience, education levels, and gender mix etc., elaborated in detail. Infosys is one of the very few companies in India to have a board with a majority of independent directors, as well as wholly independent audit, nominations, and compensation committees.
MEASURES TO CREATE ETHICAL BEHAVIOUR

Theodore Purcell and James Weber (1981) suggested three ways for applying and integrating ethical concepts into daily action. They include:

(i) establishing appropriate company policy or a code of ethics,
(ii) using a formally appointed ethics committee, and
(iii) teaching ethics in management development programmes.

Thus it is top management which has to take initiative to establish ethical organization.

Creating value system

In common parlance, value is indicative of worth, honour, and finally right and wrong actions and choices. It is also associated with norms, world views, culture and tradition.

Values can be classified into individual and organizational values. Values at the Individual level includes faith, self-respect, setting an example or being ideal, open-mindedness, competitiveness, creativity, devotion towards work, tolerance, sacrifice, courtesy, good, just, civic sense, honesty, humility, simplicity, reason, truth, non-covetousness, forgiveness, fortitude, cleanliness, absence of egoism, detachment, poise, equanimity etc.

Values that can be imparted to the members of organization collectively include harmony, resourcefulness, discipline, dharma, equity, brotherhood, unity, peace, social conscience, co-operation, live and let live concern, care, mutual trust, love, team-spirit, efficiency, effectiveness, excellence, morale, productivity, responsibility, risk-bearing, accountability, sharing, sacrifice, etc.

Open Book Management - The goal of open-book management is to get employees to think like an owner by seeing the impact of their decisions and actions on financial results.
Employee Selection - The selection process should be viewed as an opportunity to learn about an individual's moral level of development, personal values, ego strength, and locus of control.

Codes of Ethics - A code of ethics, a formal statement of an organization's primary values and the ethical rules it expects its employees to follow, is a popular choice for reducing that ambiguity. For instance, nearly 95 percent of Fortune 500 companies now have codes of conduct.

Ethics game - Individuals are grouped into small groups or large groups are divided into several teams. Individuals or teams are presented with ethical dilemmas based on the company's actual experiences. The goals of the game are to help employees recognize ethical dilemmas and increase their understanding of its rules and policies regarding ethical behaviour.

Ethics Committees - Many companies have ethics committees to advise on ethical issues. Such a committee can be a high-level one, comprising the board of directors and chaired by the CEO of the company.

Board - Many boards of directors now include outside directors, such as influential, academic, minority, and religious leaders, who give "society's" view during decision making.

The ethical and social responsibility review - Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics. Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply "do the right thing". These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

Ethics Hot Lines - A member of the ethics committee receives the confidential call and then quickly investigates the situation. Elaborate steps are taken to protect the identity of the caller, so as to encourage more employees to report any deviant behaviour.
Ethics training Programmes - Generally speaking, ethics training is most effective when it is conducted by company managers, and is steered away from abstract philosophical discussions to focus on specific issues from the work environment.

Ethics manual - If an organization is keen to set up explicit norms that will guide its general business principles and code of conduct, it needs to first craft a business ethics manual. Such a manual will begin with the 'Vision Statement' and proceed from there to a clear declaration of actual norms, practices and what the company considers to be strict. A good ethics manual will integrate these different aspects within a common and reiterative scheme such that the whole manual hangs together as a unity.

Ombudsman Position - An ombudsman is a person within an organization, often an elder and respected manager, close to retirement, who has been relieved of operating responsibilities and assigned the task of counseling younger employees on career problems, organizational difficulties and ethical issues. The term in Swedish, refers to a government agent in that country who has been especially appointed to investigate complaints made by individual citizens against public officials for abuses of power or unfeeling/uncaring acts. Often the ombudsman can go considerably beyond counseling and investigation and is able to act informally to resolve problems.

ETHICS – A CHALLENGE IN INDIA

'Business World' (a renowned Indian magazine) brought out a special collectors issue on 'Ethics and the Manager' in the year 2007. In this volume, 16 cases which throw up a range of interesting ethical issues are discussed by professionals from all walks of life. The editor of the case studies, Meera Seth wrote in her preface (pp 6-7).

So what is going on? Are we admitting that we are a people a little low on ethics? Most discussants agree. The slap in the face, the wake up call, the cold water douse, call it any one of these, comes from a single poignant set of sentences in Achal's (a discussant) commentary to the 'Leader's fifth p' case (p.125), where he says:

"So are the organizations today any worse on ethics than they were, say, 10 years ago? Are they bending it more? I do not think that the vacuum of ethics is recent or sudden; I think the difficulty is that the vacuum has itself become the atmosphere. There is an ongoing normalization of lack of ethics and that is worrying".
ETHICAL VIOLATIONS

In India, ethics is considered important but not all individuals and organizations are ethical. Table – I.1 shows the number of frauds in public sector banks. These frauds reinforce the assertion that some of Indian businessmen are tempted to be unethical.

Table - I.1 Frauds in Public Sector Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Number of frauds cases</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>657</td>
<td>2119.16</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>216</td>
<td>1996.12</td>
</tr>
<tr>
<td>Bank of Maharashtra</td>
<td>39</td>
<td>1935.38</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>147</td>
<td>1325.08</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>131</td>
<td>805.11</td>
</tr>
<tr>
<td>Oriental Bank of Comm.</td>
<td>16</td>
<td>632.74</td>
</tr>
<tr>
<td>Bank of India</td>
<td>209</td>
<td>632.61</td>
</tr>
<tr>
<td>State Bank of Patiala</td>
<td>35</td>
<td>614.53</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>48</td>
<td>528.60</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>83</td>
<td>403.75</td>
</tr>
<tr>
<td>UCO Bank</td>
<td>82</td>
<td>401.01</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>77</td>
<td>383.24</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>53</td>
<td>332.31</td>
</tr>
<tr>
<td>Others</td>
<td>357</td>
<td>1814.20</td>
</tr>
</tbody>
</table>


There are different instances in which some of the well known companies have adopted unethical means.

- Anubhav plantations scam reveals how the group defrauded the investors and the regulatory authorities with ease
- Indian Hotels – Ajit Kerkar, the former Chairman and Managing Director faced various allegations of FERA Violations, which led to his downfall.
• **JVG Scandal** – JVG group of companies defrauded its investors and garnered resources through illegal approaches. The funds were deployed, violating all right methods.

• Tata Tea funding of militants belonging to ULFA organization raised debate on 'militant-funding vs protection payment.

• The Bhopal Gas Tragedy – On December 3, 1984, poisonous gas leaked from Union Carbide India Ltd, pesticide plant in Bhopal, and killed thousands of people.

A brief description of how some of the Indian organizations are involved in unethical practices is attempted in the following paragraphs.

*Environment and product Issues*

In India, coca-Cola was accused of draining the underground water table, of releasing improperly treated industrial effluents, and of selling products containing pesticide residues above the standard limits. The focal point of the environmental accusations in India was the Coca-Cola plant located in Kerala. Coca-Cola Beverages Pvt. Ltd. had established a bottling plant at Plachimada locality in Palakkad district in Kerala. The unit was established in 1998-99 in a 40 acre plot that had previously been used for irrigation of paddy and other food crops.

The factory site was located in the proximity of a main irrigation canal that drew water from a nearby barrage and reservoir. It was alleged that Coca-Cola had dug more than 65 bore-wells in the plot to extract the groundwater for production and operations. The daily production was estimated at 85 truck loads of beverages wherein each load contained 550-600 cases and each case contained 24 bottles, each of 300 ml volume. It was estimated that every day, 15 million liters of groundwater was extracted free of cost and used for production and bottle washing.

Many local residents in the villages surrounding the factory site alleged that over the years, they had been faced with depleted underground water levels, leading to water scarcity. In addition, the bottle-washing operation involved the use of chemicals and generation of effluents. These effluents were allegedly released without adequate treatment, leading to the contamination of groundwater. As a result, it was reported that the groundwater turned turbid or milky on boiling and was unfit for
consumption. Another by-product of bottle washing was a foul smelling dry sediment sludge waste. It was said that the waste was initially sold to unsuspecting farmers as a fertilizer. When there were no takers, Coca-Cola allegedly offered it free of charge.

In 2003, BBC Radio ‘Face the Facts’ programme revealed that a separate study conducted by it has shown that the sludge contained high levels of carcinogenic heavy metals like cadmium and lead. It was only when the farmers came to know that it was toxic that they raised protests. The waste was dumped on the wayside and on the lands at night. In the same year, the Center for Science and Environment (CSE) published a report which revealed that 12 soft drink brands sold by Coca-cola and Pepsi in India had pesticide levels far higher (almost 36 times more) than what was permitted by the European Economic Commission (EEC).

Some of the main pesticides found in these cool drinks were Lindane, DDT, Malathion, and Chlorpyriphos. It was believed that the use of groundwater which had high pesticide residues and which has not been properly treated by the companies was the main reason for such high pesticide levels. These residues could cause cancer, damage to the nervous and reproductive systems, birth defects, and severe disruption of the immune system in the long run. The same study concluded that no such residues were found in long run. The same study concluded that no such residues were found in the same brands that were sold in the US.

Product tests - Clinical trials

Unethical experimentation on human beings threatens the very fabric of civilization. In 1947, an international tribunal at Nuremberg declared such activities as crimes against humanity. In a recent survey of 200 health researchers that was commissioned globally by the former US National Bioethics Advisory Commission and published in February's edition of the Journal of Medical Ethics revealed that a quarter of clinical trials conducted in developing countries did not undergo ethical review.

Globally, clinical research was estimated to be a $5 billion to $6 billion market in 2002, and according to the CEO of Biocon, India's premier biotechnology company (est. 1978) clinical research spending is expected to be very high. The reason that the business of clinical trials has grown so rapidly, is that it provides the pharmaceutical industry with the necessary underpinning for obtaining a license to market drugs. But
the clinical trial business is dependent upon a large pool of human subjects - or, a stable of human guinea pigs - in which the drugs are tested.

"In India particularly, unethical and illegal clinical trials are most rampant and are conducted without fear because, say critics, there is no law to safeguard the interests of volunteers, while regulatory authorities," by design or default", fail to take action against such trials".

Asia News (2004) reports: "Almost all top names, including Novo Nordisk, Aventis, Novartis and Glaxo SmithKline, have started running clinical drug trials in India lately, while some, such as Eli Lilly and Pfizer, which started much earlier, conduct tests on a number of their new drugs." Besides, a variety of both India-based and global contract/clinical research organizations that specialize in outsourced clinical trials management are working to expand India's clinical-trials business. These include Quintiles, Omnicare, Pharma Net and Pharm-Olam (all US-based).

Some of the cases taken to court are indicative of the crime committed by the companies.

- In early March, 2004 the Supreme Court of India hauled up two top biotech companies in India, the Hyderabad-based Shanta Biotech and Bangalore-based Biocon India, for "openly conducting illegal clinical trials of new drugs on unsuspecting patients" after a litigation filed by the Aadar Destitute and Old People's Home, a Delhi-based social organization. This non-governmental organization (NGO) alleged that the two companies had conducted improper clinical trials of Streptokinase - a new clot-busting drug used in heart attacks, as a consequence of which eight people lost their lives.

- More than 400 women who had been trying in vain to conceive were enrolled in 2003 without their knowledge or consent to take part in clinical trials across India to see if a drug called Letrozole induced ovulation. Letrozole used in India was copied (with permission) by Sun Pharmaceuticals, a large Indian generic drug company, from a patented product of the same name of Novartis, which the multinational drug maker introduced globally for solely treating breast cancer and not for any other use in any country, including India. A complaint on the Letrozole case, too, was filed in the Supreme Court by yet another Delhi-based NGO.
• In 2001, a trial that made headlines involved the clinical trial of nordihydroguaiaretic acid, a chemical with anti-cancer properties that was tested by a regional cancer-treatment center (RCC) in the Indian state of Kerala for a US-based researcher then associated with Johns Hopkins Hospital in the United States. The drug was allegedly tried on 26 unsuspecting cancer patients, two of whom died. Subsequently, a 60-year-old woman was again included for a trial for which the RCC provided five doses of the experimental drug, worth Rs10,000 (about US$200), free. The woman's condition turned critical as well before the fifth dose, although she escaped death.

These instances indicate that in the absence of adequate regulations and proper laws, a developing country eager to cash in on the opportunities of globalization can be used for indulging in rash and risky practices.

Kickbacks

Balco was a profit making public sector Company under the Ministry of Mines (MoM). Balco, incorporated in 1965, was closely associated with the growth of the Indian Aluminium industry. Balco played a pivotal role in making aluminium a leading metal with myriad uses ranging from household, industrial to strategic defense and aerospace applications. Balco had two working units - an integrated Aluminium complex situated at Korba in Chattisgarh and the second at Bidhanbag in West Bengal equipped to produce only on downstream facilities. Balco was a supplier of special aluminium alloys to the nation's intermediate range ballistic missile, Agni and surface to surface missile, Prithvi. The GoI held 100% stake in Balco. Balco had a total workforce of 7,000. In 2000, it had a turnover of Rs.898 crores and a profit after tax of Rs. 56 crores.

In 2000, the GoI announced to divest 51% stake in Balco to a long-term strategic partner. In mid 2000, leading domestic players like the Aditya Birla group company-Hindalco Ltd, Sterlite Industries Ltd. (SIL) and the global major, Alcoa, expressed their interest to acquire 51% controlling stake in Balco. In February 2001, the Government of India (GoI) approved the sale of its 51% stake to SIL for Rs. 551.5 crores. The Opposition launched a massive attack accusing the BJP Government of
'selling out' to private interests. Also, the Chhattisgarh Chief Minister, Ajit Jogi, alleged a Rs. 100 crore kickback in the sale involving key officials. Jogi also threatened to cancel the bauxite mining and land lease. Fierce opposition to the Balco-Sterlite deal forced the BJP government to put off finalizing the sale agreement till the matter was discussed in the Parliament.

In March 2001, the Parliament approved the controversial deal with the opposition-sponsored motion being rejected in the Lok Sabha by 239 to 119 votes. But the story did not end here. The employees union launched an indefinite strike protesting against the Balco sell out. After a protracted battle, an agreement was reached between the Balco management and the union. With this agreement, the Balco disinvestment saga was put to rest. But, with the employees not completely satisfied with the terms and conditions laid down in the agreement, the future of Balco did not seem to be very promising.

In February 2001, when GOI announced the dis-investment deal of BALCO, hell broke loose. The opposition parties vehemently opposed the move and accused the government of selling BALCO for a price, which was far below its actual value. There was also stiff resistance from Government of Chhattisgarh, as well as the workers of BALCO who went on a strike opposing the deal. The deadlock ended with the strike being called off after 62 days when the new management of BALCO finally brokered a deal with the workers. The ethical issues relating to sale of public property of Balco to a private party was more intense as Balco was the major supplier for many essential and necessary industries including military and defence in India and also it was profitable to the Government of India.

Financial irregularities

In March 1995, a press release issued by the UK-based global tobacco major British American Tobacco (BAT), shocked the Indian corporate world. Expressing a lack of confidence in K L Chugh (Chugh), the chairman of its Indian subsidiary, the Indian cigarette industry leader ITC, the press release demanded his resignation. The incident took place soon after Chugh had accused BAT of trying to forcibly increase
its stake in ITC to gain majority and that BAT was not in favour of ITC's diversification into the power generation business. Urging the appointment of an outsider as chairman, BAT had been trying to wrest managerial control since mid-1994. Denying allegations of financial irregularities, Chugh had kept his seat with the help of India's state-owned financial institutions, which together own 38% of ITC.

The surprise element was BAT's claim that it was not demanding Chugh's resignation because of the shareholding issue, but because it had detected certain financial irregularities in the company. The international trading division posted losses on several huge deals, including a controversial rice transaction in Sri Lanka that contributed to Chugh's fall. BAT said, "Chugh should resign in the interests of the company, its employees and its shareholders."

Soon after, Chugh called a press conference, at which he categorically refused to resign. "Just because one of the shareholders throws a tantrum does not mean the chairman goes." He reiterated his stand that BAT was trying to increase its stake and added that BAT only wanted to use ITC's funds for its own benefits. Mr. Chugh's ITC had then taken the view that India had a competitive advantage in several areas such as textiles, agri-processing, software, jewellery crafting, leather, granite, tea, marine foods, engineering goods, two-wheelers, tobacco, speciality steel, chemicals and paper, aluminium and construction, "to name a few" as Mr. Chugh then put it. A "country strategy" was needed to put plans into motion in each of these areas.

The news has particularly chairman K L Chugh that he was a patriotic swadeshi champion warding of an invasion by BAT, the foreign group which owns 32 per cent of the company's equity. BAT wanted to increase its stake in ITC and get rid of Mr Chugh not only because he opposed the parent company, but because his export deals smelled fishy. He created shell companies abroad with dubious NRI partners, siphoned off money and deposited it in Swiss bank accounts. It is alleged that ITC bungled the export of rice and lost enormous sums.

Soon, the inside details of the ITC-BAT conflict became public knowledge as a series of allegations and counter-allegations from both the parties surfaced in media reports. Commenting on the showdown, a report said, "As skeletons come tumbling out, ITC's carefully nurtured public image as a professionally managed enterprise has been tarnished."
The Rs 12.50 billion Indian music industry has long been considered to be synonymous with Indian film music. However, due to the promotional effects of satellite music television and the entry of global music companies in the 1990s, non-film genres, such as international music, Indi-pop and regional music have also become popular. Traditional music such as classical and devotional music and ghazals has also received renewed attention. The rapid increase in the number of corporate music retailing outlets, the increasing penetration of Compact Discs (CDs), the emergence of distribution channels such as the Internet and the ever-growing base of 60 million cassette players and four million CD players have facilitated the trend.

In July 1997, some of the leading personalities from the Indian music industry gathered for a meeting at a five-star hotel in Chennai. Among those attending were representatives from music companies like Venus and Tips Industries (Tips) and the owner of Super Cassettes Industries, Gulshan Kumar (Gulshan). The meeting had been called to persuade Gulshan to co-operate with the other music companies. One of the representatives pleaded with Gulshan, "You've ruined the market. No matter how hard we try to sell, you undercut us. We owe huge amounts to lenders. For God's sake, ease up on your business so that we can carry on with ours." To this, Gulshan calmly replied, "I won't do it any more." Though the others did not really believe him, the meeting ended on a peaceful note. But Gulshan could not continue to run his music empire for much longer. A few days after this meeting, he was shot dead, allegedly by the Mumbai underworld.

Two of Indian film industry's prominent names - music director Nadeem Saifi (Nadeem) and a promoter of Tips, Ramesh Taurani (Taurani) - were arrested for conspiring to kill Gulshan. The case, covered extensively in the national media, was still being fought in the courts in November 2001, with Nadeem hiding in UK and Taurani out on bail. Gulshan's death brought to the attention of the nation the story of a man who had allegedly built an empire on music piracy and plagiarism. Super Cassettes' & 'T-Series' had completely changed the way the Indian music industry functioned, allegedly by successfully exploiting the loopholes in India's anti-piracy regulations.
**Adulteration**

Manjunath Shanmugham (27), an IIM-Lucknow alumnus and employee of Indian Oil Corporation, was killed in Lakhimpur Kheri on 19th November 2005, allegedly over his drive to prevent adulteration of petrol. The news sent shock waves across the country. A native of Karnataka, Manjunath joined the IOC in July 2003 after graduating from IIM Lucknow and in October that year was appointed as Assistant Sales Officer in Lakhimpur Kheri.

Most of these corporate episodes are situations in which the public or some segment of the public believes that a firm has done wrong or treated some individual or group unfairly. In some cases, major laws have been broken. In virtually all of these episodes, questions of whether or not business firms have behaved properly have arisen.

**POSITIVE RESPONSE TO ETHICS**

Some Indian organizations are now trying to spread the message that they are ethical. In India, business educators refer to *Vedic* values, *Gita* prescriptions and stories of *Panchatantra*. Over the last ten years, since the Management Centre for Human Values (MCHV) came up as a formal outfit within the IIM-Calcutta, more than 5000 managers have been covered from about 50 organizations. Of them, TELCO, Godrej & Boyce, IPCL, IOC, Bharat Electronics, Hindustan Aeronautics, Indian Farmer Fertilizers Co-operatives and the State Bank of India, have stayed with these programmes for as long as three to five years at a time. (S K Chakraborty, 2002)

Azim Premji, while addressing the TISS HR seminar recently (2005) said that in his journey from a tiny business of 5 crores to Wipro's net worth today touching some 3500 crores, everything in Wipro 'but for values and integrity', has undergone a drastic change. He cautioned the emerging breed of entrepreneurs and business managers to desist from temptations of shortcuts and windfall gains.
Case of Alacrity

The case of Alacrity as narrated by the founder shows how a business man committed to ethics had faced problems and survived in Indian context.

Intrinsic to the story of Alacrity is the value of leadership in the organization. I believe fundamentally in the necessity to make value judgments. I take strong positions and I believe that leadership has no choice but to do that. But at the same time I do not want to deny your freedom to take a strong position and if necessary, even to try and upset my position. It is in the process of this conflict and resolution that strong relationships and institutions are built. There is a tendency across the world to maintain soft relationships but soft relationships don't make strong institutions. And a socially responsible corporation is necessarily a strong institution with strong relationships, in which the leadership has taken strong value positions and provoked people to resolve conflicts and stay meaningfully or leave, however painful, the parting.

Much of our initial capital came from well wishers, mainly from family. And it turned out that even before I had collected the whole sum, I had lost it all. Despite the uncertainty of the construction business and the high risk, I sensed a long term opportunity here.

Now, that is as far as the first aspect of political legitimacy goes. Coming to actually dealing with the government, construction is full of sanctions at every stage and corrupt practices are known to be rampant. Very early I gave this matter a lot of consideration: Imagine that my colleague tells me that a certain official has to be paid twenty thousand rupees and he leaves the room with the money (he takes cash since bribes are paid in cash, not by cheque). I might then start wondering whether the official had wanted only ten thousand and my colleague was pocketing the other ten thousand. This cuts, at the very root of building mutual trust and confidence in relationships and it is enduring relationships that build institutions. So, when I said that Alacrity will not bribe, I was not making a public statement on morality, but merely saying that I wanted to build an institution.

When we finished our first project, we delivered flats at one hundred and fifty rupees per square foot against the market rate of two hundred and fifty. Almost immediately the
income tax department issued notices against all twenty-four flat owners asking them to show cause why the undervalued flats should not be taken over. They obviously were implying that there was a large component of black money involved. Were they, in effect also saying that they would not facilitate good, honest pricing?

When my auditor and I went to meet the official concerned, the man who started off on an angry, contemptuous note ended by asking us in a whisper, “Is it really one fifty per square foot? The crowning piece of this whole encounter was something quite unexpected. At the end of our dramatic meeting, he got up, took my hands in his and said, “I was once a communist, an activist, pursuing my own brand of idealism. Somewhere over the years, I have allowed layers of rust to accumulate within me. Please don’t let this happen to you.” He seemed to be saying, please do it for me too, not just for yourself. When I had spoken to him, I was thinking only of my own emotions. But I suddenly realized that if you are honest and you assert honesty, you awaken it in others. I had now started recognizing what I had only sensed earlier: that there was indeed a leader within me. This is not to say that we have since got all our sanctions on time. Not asking for a bribe does not amount to efficiency. The departments have a long way to go. There are delays. But because we observe regulations strictly we are on a very strong wicket. And since we have established a track record, we finally get what we want and in the occasional cases when we don’t, we have moved the courts and won every single case that we have filed. This particular dimension of our achievement is perhaps not sufficiently highlighted or acknowledged.

RESEARCH PROBLEM

The above description indicates how ethics is observed to be important by business organizations. In view of the ongoing debate on how ethics can be considered as an important characteristic of an organization, a study of attitudes of managers is considered relevant. Attitudes of managers are important for managers who represent the activating element of a business organization.
CHAPTERISATION

The present study focuses on understanding how ethics are viewed by managers and adopted by organizations in India. The study is divided into seven chapters.

Chapter I provides a description on the context and theoretical framework of the study.

Chapter II reviews research works, identifies research gap, states the research questions, objectives and hypotheses for the study, and describes the methodology and points out the limitations of the study.

Chapter III analyses the views of managers on business ethics.

Chapter IV examines the factors influencing ethical decision making by managers.

Chapter V describes how Indian companies are striving to create ethical organizations.

Chapter VI presents four cases of organizations which have concern for ethics.

Chapter VII summarizes the findings, draws conclusions and provides suggestions.
REFERENCES


