

## **CORPORATES IN INDIA CANNOT AFFORD TO BE ETHICAL**

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*When questioned about their unethical practices, many companies claim that the conditions in India do not allow them the luxury of being completely ethical. This article explores the cultural and social issues which make it difficult for a company to remain ethical, in a predominantly unethical environment based on studies conducted in India and other developing nations.*

Is it possible for an organization to remain ethical in the face of the growing corruption, increasing disparity between people and rapidly reducing profit margins? Thousands of underhand deals are struck everyday and go unreported or unnoticed. There is hardly an institution, which has not at some time or the other been either involved or suspected of some foul play. Even companies which started off with intentions to do business in an ethical manner have had to compromise their principles due to the highly politicized and beauraucratic business environment in India.

The argument often given by these companies is that ethical concerns are largely a luxury of developed countries; the Third World cannot afford this luxury. We cannot completely deny this statement considering that all of us, despite our best intentions, have been tempted to use lax systems to further our personal motives on some occasion.

According to Aga (1994) there are two types of corruption: political corruption (money paid for favors done) and administrative corruption (money paid for doing what should have been done in

the first place). Examples of administrative corruption include "gifts" to the Factory Inspector, Boiler Inspector, Pollution Control Board Inspectors, and the assessors for customs, excise, income tax, sales tax and octroi. It is this administrative corruption, which most companies claim to be forced onto them from time to time.

A casual look at the happenings in the corporate world or some experience of doing a business in India could easily lead a person with more than average patience to believe that "Corporates in India cannot afford to be ethical."

If this statement sounds audacious to you, it would be only right to explore the truth behind it. Why do Indian corporates find it difficult to be ethical? What are the social and psychological reasons behind this phenomenon and can we overcome them? If so, how?

Sims et al (1999) studied the impact of the perceived organizational environment and found that it was significantly related to employee decision. It is a common belief among most Indians that government officials are corrupt, the legal system is ineffective and that bribing and ingratiating are accepted practices. A study on the ethical attitudes of Indian managers conducted by Arun Monappa and published in 1977 (cited by Cryiac (2000)) reported that business executives considered company policies, bad competitor practices, unethical industry climate, and corruption in government as the major obstacles to ethical behavior.

There are two basic reasons why corporates in India are likely to be unethical. The first is the inherent cultural and social reasons and the other is because of the sense of frustration and helplessness that comes from existing in an unethical environment.

## **Cultural and Social Reasons for Unethical Behavior**

Batten et al (1999) compared the behaviour of firms in Australia and Sri Lanka to study the impact of the level of economic development on ethical behaviour and practice. The study concluded that ethical management practices are likely to vary between countries due to differences in socio-economic and cultural factors.

According to Rossouw (1998), business ethics is often regarded as a low priority in newly formed democracies, because it seems there are more urgent demands that have to be dealt with first. Most Indian businessmen and government officials are likely to agree with this idea. The urgencies of day-to-day survival for businessmen and the lawmakers do not give them the scope to worry about the ethical and moral implications of their actions. This is especially true today, in the era of liberalization, where Indian corporates find it increasingly difficult to compete in the new "global" markets.

Analyzing the relationship between national culture and decision-making, Robertson & Fodil (1999), have reviewed established theories and developed a culture-based model for ethical decision-making. They believe that cultural factors like individualism / collectivism, education and training affect ethical decision-making. Managers from collectivistic societies are more likely to follow the utilitarian theory of ethical decision making than the managers from individualistic societies. The utilitarian theory supports the credo " No harm done – Nothing wrong" which might explain why Indian corporates often use this logic to justify otherwise unethical behaviour.

Cultural logic also governs the social behaviour of people (Steidlmeier (1999)). In China, gift giving is a prevalent social custom, and hence gift giving becomes a natural outcome of a relationship. Reciprocity is in any society a rule of life, but in some societies it is the predominant rule of social life. In such a situation, not giving a gift in the course of business would mean non-compliance with a social custom and could be interpreted as rudeness or arrogance. Thus, it is possible some of our customs and values force us to commit acts that could be construed as unethical. An appropriate example from the Indian context would be the practice of inviting friends for dinner at one's residence. In India, this action is the natural outcome of a relationship. In such a situation, not inviting a business associate could be construed as impolite.

But why is it that a highly spiritual and religious country like India is grappling with the issue of corruption? Should not our rich spiritual and cultural heritage guide us on the straight and narrow path of righteousness?

Sinha (1997) explains that the Indian peoples' aspiration to build a strong nation in a short time coupled with our colonial legacy has led to two divergent strands of values: the traditionally idealized values (rooted in ancient psycho-spiritual thoughts) and the operative values (evolved from the interaction between idealized values and India's changing socioeconomic realities). It is the latter which are visible in people's current behavior.

Another explanation of ethics in a developing economy is given by Lea (1999): "Transition from subsistence culture to the commercial enterprise of capitalistic culture can affect a moral chaos in which behavior falls short of ethical expectations. In traditional sub- cultures rituals govern life. These rituals are insufficient behavioral guides in capitalism, which increases individual autonomy and responsibility and generates surpluses and wealth." Rapid economic growth leads

to the development of a distorted understanding of capitalism and growth, in which money power, survival and profitability at any cost are considered as the primary goals of any business. The manifestation of this idea is very apparent in India and especially in the case of some famous "rags to riches" stories.

### **Compelled To Be Unethical: "If I Can't Beat Them I May As Well Join Them"**

South Africa has a major fraud and corruption problem. A study conducted in South Africa by Zyl et al (1999), found that business people, who previously abided by rules and regulations of the country are throwing up their hands in despair saying: "well if I can't beat them, I may as well join them." This refrain seems familiar to us in India, where most businesses are often heard blaming the "system", the legal framework and the government for their own unethical actions. Even Rossouw (1998) found that people tend to see the prevailing culture as a rational and fixed order, which is almost impossible to change and they defend their own unethical behavior by saying that it is impossible to act otherwise.

The need to adapt to the unethical environment is so strong that even large multinationals setting up facilities in India have been unable to avoid cutting corners. In their eagerness to capture the Indian market and beat the competition, many companies have grossly broken their stringent codes of conduct, which in the west would be unthinkable. This was apparent when a major portion of the top management of a leading FMCG multinational in India were removed on grounds of violation of the ethical code of conduct, however there was no visible effort on the

part of the company to own up or reverse some of the unethical actions performed by its erstwhile employees.

### **Other obstacles to ethical business practices in developing countries**

The other factors affecting ethical practice in India are: fear of retrenchment; lax government structures and regulations; sanctions and discriminations; uncertainties and fears about the future; a belief that business and ethics were irreconcilable; an inequitable tax system (Zyl et al (1999)); and scarcity of resources (Rossouw (1998)). These create in businessmen a sense of helplessness which is enhanced by the strong external locus of control found in Indians (Gopalan and Stahl (1998)).

### **Solutions**

Having seen all the possible reasons for unethical business practices in developing countries, the solution must be to remove or control the factors that are responsible for these practices. The control can be effected at two levels: the Individual and the Organizational. The Individual dimension involves behaving ethically yourself, screening prospective employees and ethical training; while the Organizational Strategies involve developing a meaningful code of conduct, distributing the code of ethics, communicating the code of conduct and monitoring and enforcement (Zyl et al 1999).

There is a widely prevalent belief in the minds of people that ethics is a matter of personal choice and that the organization can do little to enforce ethical practices in an organization. However,

research has proved the importance of organizational policies and practices on ethical behavior (Verschoor, 1998, looking at case studies of 500 publicly held US corporations: J&J, Campbell Soup, Du Pont, IBM). Statistical analysis of the Business Week rankings of corporations has shown that mean financial performance rank of companies with a stated commitment to ethical behavior is higher when compared to mean rank of companies that either published no management report or did not make any reference to ethics.

Batten et al (1999), has listed three factors that account for ethical behavior in organizations: the presence of a written code of ethics, a forum for discussion of ethics and whether respondents considered their firms' activity had a negative impact on the environment.

The efficacy of such corporate initiatives in the Indian environment remains to be seen. Until then, we can rely on the personal initiative of employees and dynamic leadership to sustain the moral and ethical character of businesses in India. The ideal would be, in the words of the late Mr. Aga (1994): "Where profit is not only a set of figures, but of values."

*The ideas expressed in this article are my personal views and do not represent the views of my organization.*

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