

The Ethical Corporation
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Lecture - 11
Managing Ethics within the Corporation

Hello, we are back, this is our third week and we are getting ahead, last week we have heard about the ethical theories, but now we are into how to manage or managing ethics within corporation. So, this is going to be our main topic for the entire week and we will take it up in various segments, but today this is going to be sort of a introductory lecture where I talk about.

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Mainly about you know how to start, where to start about managing ethics within the corporation ah, what could be the result of having for example, an ethics program in the corporation and then we will talk about the various kinds of ethics program that there might be and what could be the enabling factors within the organization. Because you know only having a program is not enough unless there are also supporting factors within the organizations to hold it or to push it forward. So, this is going to be our lecture material for today.

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Managing Ethics within the Corporation

- Ethical conduct within a Corporation results from (a) what the Corporation wishes to promote as desirable kind of practices / Behavior and (b) how it organizes within itself the promotion of certain kind of practices / Behavior.
- Same is true about unethical conduct also.
- This course is founded on the premise that:
 - (a) Ethics can be taught. It is a process. ✓
 - (b) Most managers and employees wish to do the right and the good, and they can be encouraged to follow their predispositions towards the core values
 - (c) Organizational culture can be guided towards set ethical goals, and to avoid the ethical pitfalls, which may endanger the Corporation itself.
- Corporations need be **pro-active** in being willing partners in managing ethics within the organization.

First of all when we say managing ethics within the organization or corporation we two things I would like to first emphasize upon. First of all the corporation has to decide what kind of behaviour is desirable for them? What do they want to promote as desirable kind of practices? So, this is important and we will show you how the organisation can clarify to the rest of the; rest of the employees and so on, but first is the organization itself needs to determine this figure this out.

Second is then this how, first the what and then the how once you know that we want this kind of practices to prevail in our organization, then how to have this kind of practices among the employees and within the organization. So, it needs to the corporation needs to organize in itself certain kind of procedures, programs and so on so, this is also equally important.

So, one is what do they want and second is how they are going to organize it within itself. Our talk or lecture is going to be about this that it is not an external thing, it is about how the corporation manages within itself an ethics program or policy or procedure. The point is that the what we say is the ethical conduct within the organization, it is a product of both of this things and we see that where it is not clearly spelled. For example, what is desirable or how to go about it if these things are not clearly spelled, that is where we see people land into confusion they are not very clear about the expectations.

And remember this is what I have said is also true about unethical conduct, if you leave it unspecified if the corporation itself is not clear about, what it wants and how it wants to organize and so on and there are therefore, organisational silences on certain practices and people observe this silences.

They do not know whether the organization wants to condone it that is does the corporation want us to continue in this way or are this prohibited are these real not the kind of practice that the organization wants. If that distinction is not very made clear that is where people observe the silences and then slowly looking at each other you know how other people are behaving you know and they there are people who stop to cross the line.

So, the same thing is true about unethical conduct also, now this whole course is based on certain points for example, the first point is that ethics can be taught. So, there can be modification of behaviour there can be modification from within it is a process, it is not an overnight phenomenon, it is not a miracle, but ethics can be taught.

Second point that I strongly believe in is that mostly people are not really what we call bad hearted. In fact, if you look into a corporate setup whatever it might be your impression about other things, but most people whether they are at the managerial level or employee level they want to do what is the right thing, they have their heart in the right place and they want to do the good. Therefore, there should be ways to encourage them to follow their own tendencies towards those right and what the thing is good except that it has to be aligned to the corporate objectives and values. So, there is a process that needs to be done.

Then organizational culture, you know just like a business can set it is financial objectives similarly a corporation can also a determine or fix a ethical goal, where it wants to reach and the organizational culture can be encouraged to move towards that goal and to avoid the ethical dangers the risks that might be there which ultimately fall back on the corporation itself.

So, the point here is that for all these the corporation has to be proactive how to be willing partners in managing ethics within the organization. There has to be a will you know the corporate will has to be there in the right spot that they want to do this that is the very first condition for having any discussion on this.

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Impact of Managing Ethics within the Corporation

Recent survey shows that when organizations start prioritizing integrity and values, the visible differences in employees are as follows:

1. Less likely to feel pressurized to violate ethics standards
2. Less likely to engage in misconduct ✓
3. More likely to report misconduct that they see ✓
4. Less likely to face retaliation for reporting [Global Business Ethics Survey, 2018]

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If you are wondering whether there is any effect of having ethics program within the corporation then let me bring you the result of a recent survey. This is a survey that is done by a well known organization that is Global Business Ethics Survey and you can see the year also, what they are reporting is that when organizations start to value ethics in terms of say expressions of values in your behaviour or integrity in the character of people, there are visible differences that can be seen in employee behaviour.

There are some examples of what changes they have seen or reported that the organizations which are which have implemented some of this ethical policies or programs. There people are less likely to feel violating the ethical standards the moment there is any pressure on them, we all understand job pressure and that there are all kinds of temptations around, but in such organizations people are less likely to feel that pressure to immediately cross the line whenever there is pressure on them.

People are also less likely to engage in malpractices, that is ethical misconduct and they are more likely to report misconduct when they see one and there is less likelihood of facing backlash when people report against some malpractice. Now this is a phenomena organizational phenomenon naturally if there are miscreants or if there are people who are getting benefit by doing some sort of malpractice, there is always question about organizational backlash meaning and the senior taking it out and junior or the colleagues going against the colleagues and so on.

But when it comes at an organizational level there is encouragement for finding out malpractice or to weed out malpractice there is less likely, because there is organizational support that less likely to face retaliation under that situation. So, these are positive results we can say for having ethical program within the corporation.

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Managing Ethics within the Corporation

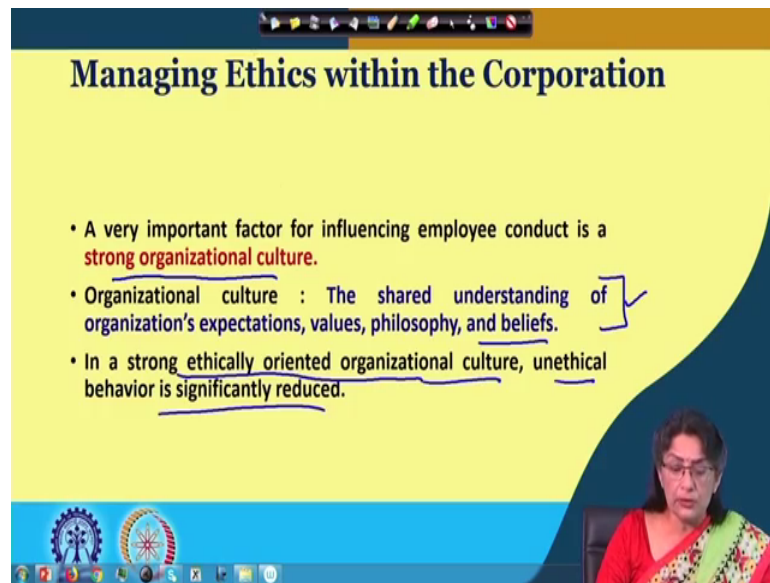
Some of the leading misconduct reported in 2017 were:

- Misuse of confidential information
- Giving or accepting bribes or kickbacks
- Stealing from company
- Sexual harassment

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What are some of the leading misconducted that the survey reported that, these are some of those. Obviously, this is not an exhaustive list, but as you can see these are each of these are common found across different segments of corporations and these are typically in behavioural level. I am sure there are other larger issues also, but we are just giving you a sample so, that you understand what we are talking about and what to not to encourage within the organization.

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Managing Ethics within the Corporation

- A very important factor for influencing employee conduct is a **strong organizational culture**.
- **Organizational culture** : The shared understanding of organization's expectations, values, philosophy, and beliefs.
- In a strong **ethically oriented organizational culture**, unethical behavior is **significantly reduced**.

Now, how to now let us talk about how to manage we are getting close to that, one of the important factors in the how to is to understand that what actually moulds conduct within a corporation is the strong organizational culture. By organizational culture we mean a shared understanding, a shared understanding of all the values, expectations, the philosophy or the mission and the vision of that a corporation and the belief system.

This is shared as in the corporation and it is people they have a mutual understanding on this. And it is said that this organizational culture is a very strong factor in promoting ethics within the organization. So, a strong ethically inclined organizational culture is going to promote, encourage and reinforce ethical practices within the organization and not only that unethical behaviour is significantly reduced. This is what the literature the research literature also says.

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How to manage ethics within Corporation?

- Developing a successful strategy to manage ethics within a Corporation is a journey in itself. Start with an **ethics program**.
- It requires **time, planning and resources**. **Formal approaches require more of these**.
- A genuine effort by a Corporate to address ethics within the organization can have a **substantial effect** on strengthening ethical culture and outcome.
- **Even a bare minimum ethics program sends a message** throughout the organization.
- A **higher quality ethics program** enables significantly better outcome. A much bigger impact. The owners and drivers of such programs are the corporate leaders and managers. Measurement of ethical conduct and reward systems are critical

Coming back to this same question how do I start, where do I start in the corporation to manage ethics. First of all that you have to start from somewhere, the first point that I made in the first slide is first that you have to have a will that you want to implement some sort of a change, that you want to have it clear that we would like to change the organization towards some ethical goals.

Let us call that first step and ethics program. So, in a organized manner the corporation decides that we want to do something about it, when you see ethics program I will show you later that it can be of 2 types it can be formally done or it can be done informally, either way it is going to require time, it is going to require meticulous planning step-by-step and there will be requirement of resources.

If the approach is formal it is going to require more of this, but in general the point is that if there is such a program there will be some sort of effect, no doubt. Now ethics programs can be of various kinds as I said it can be various minuscule program you know just gesture just sort of a maybe some corporations might decide that we will have a document that we will send you know to all the people, let them read, let them figure it out, let them understand it and so on bare minimum.

And on the other side and the other end of the spectrum there could be a full blown a full fledged very high quality of ethics program I will show you what are the characteristics of such full-fledged program in a second, but the point is that even if you have a very

small state a baby state even that counts, because even a bare minimum ethics program is going to send a message throughout the organization. People are going to take note of that there is going this is a change that this is how the organization wants to project itself.

Now; obviously, if you have a higher quality ethics program the outcome is supposed to be this generally is much much better and such programs are of course, desirable let us take a look into what are the components of such a program.

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High Quality Ethics Program: Markers

1. Leaders acting with integrity to set example
2. Core Values are identified, and values and standards are clearly communicated
3. Responsibility is assigned to identify and mitigate ethical and legal compliance risk
4. Empowered work environment where employee can raise ethical concerns
5. Integrating ethics program with larger objectives of Corporation.
6. Incentive for positive behavior, and integration of ethics in performance appraisal
7. Disciplinary action taken consistently against violators
8. Guidance and support to employees for handling key risk areas
9. Investigations are conducted in a fair, objective and consistent manner.
10. Appropriate disclosures to the authorities, to the stakeholders.
11. Ethics training within the organization

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Here are some 10 11 components that I have listed here, a high quality ethics program. First of all where does it start it start from the top because people emulate we are followers often. So, the leadership has to set the tone set the example so, first of all in such an organization the leaders must set the tone for everybody. Then as I said the corporation has to know what it values, what it wants, what it desires.

So, core values have to be identified and not only that they have to be communicated, communicate to whom, you may communicate it to the entire world, but you did not communicate it to your own people namely the employees or the people who are associated with your business that would not do. So, clear communication about the core values and the standards should be communicated very clearly unambiguously first to your own people and then of course, to the rest of the world.

Third that there should be some designated person or persons or committee to identify and to mitigate to lessen the ethical risks and the legal compliant risks, there has to be some sort of mechanism or procedure for that and a forum for that. The work environment has to be such where people can speak up share their ethical concerns and along with the larger objectives of corporation ethics program is going to be integrated.

Now let us try to understand this point here a business is going to have financial objective, nobody is saying that in order to have a high quality ethics program the business has to shut down its own business nobody said that, instead what is being said that there has to be innovative ways of integrating the ethics program with the main objectives of the business.

We will try to show you as we go along some examples of that and what we mean by that and so on and then there has to be identification for what kind of behaviour you want to call positive behaviour or what kind of behaviour you think is the right kind of behaviour there has to be incentive for that. And incentive here means some sort of reward system if somebody is doing the right thing there has to be some reward for that.

And integration of ethics in the performance appraisal so, when you are looking at how the person has performed you look also into how ethically the person moved. There has to be consequence for not complying with the ethical demands or going against the standards, going against the guidelines, that is one because people understand consequence very clearly to modify their own behaviour.

And there has to be if there are particular operation areas which have you know naturally risky, risky in the sense that you know that there will be temptations, you know that there will be pressure on them. So, employees there need guidance, guidelines clear guidelines from the company and also support. So, that they do not have to resolve every dilemma by themselves.

If there is any investigation that is being conducted to look into malpractice it should be fair and just and consistent throughout. It is not that it works in a certain way for a and it works out in a very different way for b, if b is closer to the power that should not be the case and then this is reporting.

So, appropriate disclosures to all the authorities whether it is sustainability report or financial report, but to the stakeholders this is communication which they deserve and then ethics training within the organisation. So, as you can see these are some of the markers of a high quality ethics program. I said that it is not every program does not need to have all of this and that there can be various kind of ethics programs some very very rudimentary and some very detailed and as you see very advanced, but in general there has to be something.

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To manage ethics within Corporation

- Two enabling factors for instilling ethics:
 - 1. Proactive communication:**
 - ✓ Talking about ethics ✓
 - ✓ Encouragement to speak up ✓
 - 2. Workplace Trust:**
 - ✓ Accountability ✓
 - ✓ Genuine interactions ✓

When both are present, employees believe (a) Company is committed to the values, and (b) Company measures and rewards ethical conduct

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Now, what are the enabling factors within the organisation that might help this sort of programs to take roots in a better way? So, two enabling factors I would like to point out here; one is proactive communication. Communication, but it is a proactive communication throughout the organization, where ethics is talked about and where there is encouragement for opinions honest opinions to speak up I will explain that. And the second one is work place trust so, some trust-building exercises needs to be done, where accountability and genuine interactions are going to be important.

Now research says that when both of these are present when there is proactive communication and workplace trust, employees start to believe first of all that the company or the corporation is committed to the values. It is not just words, but they actually believe and not committed towards these values.

Second that there is some sort of measuring of behaviour and rewards for being ethical because typically people ask what is there in it for me, why should I be ethical, is there any anything that I am going to gain out of that and how do you know whether I am being good or bad and so on. So, there has to be metrics or measurement and then on the basis of that some sort of reward or consequence system, these are enabling factors as we are speaking.

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Enabling factors to manage ethics

Proactive communication:

- 1. Talking about ethics:** Leaders at all levels, starting from the top management, should set the tone. They must communicate their views on ethics, and the need for adherence to the company's standards of ethical conduct. This should be done in a concerted way.
There must also be open talk on compliance risks that employees may face at workplace.
- 2. Encouragement to speak up :** Only talking about ethics is not enough. Corporate leaders must also encourage employees to speak up when compliance to the ethical standards is compromised. Employees must have the environment to speak freely, or to openly disagree.

Now, proactive communication here means two things; one that there has to be talk about ethics you know it is not a hush thing or it is not something that you do not talk about who is going to start the talk about ethics?

We would say the leader should start at all levels. So, starting from the top management to the supervisors, middle managers and so on, they must communicate their views on what they think are the company's standards and insist upon the adherence to these standards and so on and this has to be done in a concerted way meaning altogether there has to be a certain cooperative move. And there has to be also open talk open communication about the risks that the employees run usually in workplace.

And there has to be encouragement for speaking up I was saying about you know voicing your opinion. So, there has to be encouragement from the top, from the seniors, from the managers to the employees that whenever compliance to the ethical standards is

compromised that they can let other people know specially people who are senior to them in terms of ranks and this encouraging environment must be there.

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Enabling factors to manage Ethics

Workplace Trust:

1. **Accountability:** To build workplace trust, managers and supervisors must exhibit accountability. This implies acting with integrity, and accepting responsibility for their own mistakes, when things go wrong.
1. **Genuine interactions:** Superiors must exhibit that they care for their employees, and that they value them and their inputs.

When we say workplace trust we mean that first of all there has to be accountability meaning people have done something good they should get the credit and people when they have done something bad people should own up. Now typically the way things happen is that you know the credit for credit there are many takers, but for the blame it is not. So, lot of people do not take responsibility when things go wrong, but that is what is needed if you are acting with integrity and there has to be genuine interactions between the management and the employees and so on.

The superiors must show care we have talked enough about care. So, this is where employee care becomes and very important factor if you want them to believe in the corporate values you must value them first and they must understand that they are being valued. So, these are some of the enabling factors.

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Two approaches to manage ethics within Corporation?

Two kinds of approaches:

- 1. Formal approach** ✓: Explicit and formal structures, mechanisms in place, written documents, etc
- 2. Informal approach** ✓: Organizational culture, organizational climate, ethical orientation through word of mouth

Partly because of the major financial scams and the stricter laws, partly because of the media attention and public awareness, Corporations are increasingly allocating resources in a **Formal Ethics and Compliance Program**.

E.g. The Sarbanes-Oxley Law (2002), USA, requires Corporations to set up an anonymous system for employees to report fraud and other unethical activities within the organization. So, since 2002, Corporations which earlier did not have such reporting system, have formally established these

These are **NOT** mutually exclusive approaches. Experts recommend that **both** need to be implemented. The true organizational culture must go hand in hand with the formal elements: **Walk the talk**.

Now, we have come to the end of this lecture and I will just mention this and in the next lecture we will take it forward, but as said that there can be two different categories or approaches towards have managing ethics within the corporation. One as you see is the formal approach which means that there will be some written documents that there will be some mechanisms some clear and formal structures for carrying out this ethics implementation in the organization.

And we see more and more corporations are going towards this formal approach ah, specifically because the legal regimes are now stronger for example, in the United States the Sarbanes - Oxley law has made many things now really required in the organization. So, earlier many organizations skipped certain formalities which they cannot anymore with the law same thing in our country after the companies act 2013 once it got implemented it has many such detailed requirements. So, the corporations which earlier may have skipped many of these formalities cannot anymore so, this is the formal approach we will talk about it.

And here is the informal approach which is all about organizational culture, cultural change, you know bringing the change through word of mouth and so on. Now these two are different, but they are not mutually exclusive in fact, we will show you later on that experts recommend that you do both that one actually complements the other. But this is

where I will end the lecture today and we will did give the details later on about all these things.

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So, I have given you some references here, but feel free to also raise questions in the forum.

So, thank you very much for today's lecture.