

THE CHANGING FACE OF CORPORATE ETHICS AND THE ENHANCED ROLE OF CORPORATE GOVERNANCE IN INDIA

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Abstract

This study aims to find the current status of Business Ethics across seven major sectors of corporate India, specifically the IT/Software, Health/Pharmaceuticals, Education, Government sector/ Public utilities, Financial Services, Consultancies, and Manufacturing sectors. With the knowledge of the current status of Business Ethics in these sectors, the study will outline the reasons for unethical behaviour, the existing flaws in the Code of Conduct/Ethics, the shortcomings in the Corporate Government system in the above mentioned sectors, the hurdles faced in implementing the Code of Conduct/Ethics, and examine if there is any type of unethical behaviour that is specific and highly prevalent in each sector. This study will also find out whether there is an impact on ethical behaviour on Corporate Governance. The final objective of this study is to provide a list of comprehensive recommendations as to how enhancing the role of Corporate Governance in Indian companies can reduce the prevalence of unethical behaviour.

Keywords: Business Ethics, Code of Ethics, Corporate Governance, Code of Conduct, Unethical behaviour

The Changing Face of Corporate Ethics and the Enhanced role of Corporate Governance

'Business Ethics' is a term that is now a trending topic in the business world. It is being discussed now, more than ever. It was first discussed in the 1970s, with the rise of corporate fraud and unethical behaviour, which necessitated companies to work towards its reduction, if not complete elimination. It is an essential area of business, and if ignored, will lead to dire ramifications, as overlooking unethical behaviour will result in a negative chain reaction for all stakeholders involved in the business.

Corporations are under fire. Hardly a day goes by when an executive's conduct doesn't appear as a topic – or, more accurately, as a problem – in the media. This leads to increased public pressure on corporations, many of whom are reacting and publicly assuming their corporate responsibility. The notion that business and ethics are mutually exclusive refuses to die. And the prejudice that business success is possible only at the expense of morality continues to prevail. (Zimmerli, Richter & Holzinger, 2007, p.1)

Those who are sceptical may argue that growth in a company is of utmost importance, and hence, compromising with ethics is perhaps the best possible way to run a business. However, today, this notion is clearly false. Times have changed. Ulrich (2002) states that "strict profit maximisation cannot be a legitimate principle of corporate conduct since it discards the moral self-commitment from the start" (Zimmerli, et al., 2007, p.1). A company grows faster if they do not forego their ethical principles. An ethical company is a trustworthy company. It brings in more customers, top graduates, more investment, increases popularity and establishes an impeccable reputation. The business world and the public are in awe of any company that is committed to Business Ethics. Today, not all companies only focus on gaining profits, as it

would mean that they don't have a moral compass. For years, companies have tried to find ways to give back to society.

After years of diligent scientific efforts aimed at finding a satisfactory, conclusive answer to this fundamental question, companies have begun to implement various approaches in practice. The question is no longer **whether**, but rather **how** economics and ethics can be united. Corporations and their executive committees have found various answers, ranging from philanthropic approaches to strategic positioning and institutionalised implementation. (Zimmerli, et al., 2007, p.1)

The rise of Corporate Social Responsibility, Business Ethics, and Corporate Governance is all attributed to the need for ethics in the business world. The days are long gone where companies disregarded ethical principles and profited from their activities, whilst they harmed other members of the society. Companies are involved in developmental projects which are a part of their company's CSR policy, they are following governmental, legal rules as a part of Corporate Governance and even upholding moral values by creating a Code of Conduct/Ethics as a part of their ethics strategy. Some companies are doing beyond what is required to improve the society they operate in.

Though companies have taken the trouble to help society, there are individuals in a group who belong to the same organisation, who could behave unethically. The reasons for unethical behaviour is not necessarily bad intentions, but due to a number of influencing factors like weak regulation of sanctions, incompetence, lack of comprehension and poor work ethics (Zimmerli, et al., 2007). That's where Business Ethics comes in. It tries to fill any existing gap that would prevent a company from behaving ethically. It acts as a guiding path for companies

to reach the goal of morality in the business world. Anything that the Corporate Governance system of the organisation has not covered with regard to ethical principles, Business Ethics works towards bridging that gap.

What is Business Ethics?

Ghosh (2012) explains ethics as, “ethics is derived from the Greek word, ‘Ethikos’ meaning conduct, custom or habit. Therefore, ethics is regarded as the science of morality or simply, ethics is a moral philosophy which deals with moral conduct, judgment, habit, character, rules or principles” (p. 4). However, the meaning of ‘Business Ethics’ varies and is clearly debatable. Therefore, defining Business Ethics is difficult.

As noted by Hodgetts and Luthans (2003), “Business Ethics is essentially the study of morality and standards of business conduct” (as cited in Abiodun & Oyeniya, 2011). “In a major way, Business Ethics concerns itself with the relationship between business goals and practice and the goals of society” (Abiodun & Oyeniya, 2011). Holts (1998) believes that “ethical standards describe expectations to which companies and individuals must conform to, remain consistent with widely accepted modes of conduct” (as cited in Abiodun & Oyeniya, 2011).

Business Ethics is related to what is morally and ethically correct, rather than anything being “technically correct” in the business world. Ergo, Business Ethics is the ‘moral science’ of the business world. Hence, business decisions and behaviour at work are considered ethical or unethical, based on whether they strengthen or compromise the morals of employees, society and the country in which an organisation operates in. Business Ethics is derived from the Code of Conduct/Ethics, culture, local, state and national laws, of the country where the organisation is located. Therefore, it is considered a very important aspect of work.

Business Ethics is not a very concrete concept, as it is based on the discretion of each company, culture, and country. Each company has its own list of ethical and unethical behaviour which

is not necessarily universal. So, mapping out a list of common ethical and unethical behaviour that fits the Indian context is necessary. Hence, there has to be a concrete list of what Indian companies believe is ethical and unethical behaviour.

The following are the twelve ethical principles for business executives:

1. **Honesty** - ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.
2. **Integrity** - ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honourable and upright; they will fight for their beliefs. They will not sacrifice principle for expediency, be hypocritical, or unscrupulous.
3. **Promise-keeping and trustworthiness** - ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfil the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalise non-compliance or create justifications for escaping their commitments.
4. **Loyalty** - ethical executives are not only worthy of trust, but they also demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They

are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

5. **Fairness** - ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.
6. **Concern for others** - ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help those in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.
7. **Respect for others** - ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.
8. **Law abiding** - ethical executives abide by laws, rules and regulations relating to their business activities.

9. **Commitment to excellence** - ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavour to increase their proficiency in all areas of responsibility.
10. **Leadership**- ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.
11. **Reputation and morale** - ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.
12. **Accountability** - ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities. (Josephson Institute of Ethics, n.d)

Why do we need Business Ethics?

Unfortunately, in today's world, there is an urgent need for the strong implementation of Business Ethics. The world is becoming increasingly complicated, thus there are many unclear and unique situations that appear in the workplace. Due to the advent of technology, new ways of committing fraud have emerged and old loopholes continue to allow such frauds to go unpunished. Needless to state, there is an urgent need for Business Ethics.

The Corporate Governance structure has fallen short of limiting unethical behaviour. For example, the 2008 recession that originated in the United States which destroyed the world economy, could have been prevented, if the Federal Reserve, which is the Central Bank of the country, in charge of handling any risks that arises in the financial markets, had done its job correctly.

The reality was that the Federal Reserve was alleged to have been hijacked by the very bankers it was in charge of regulating. Since the 2008 financial collapse, at least eighteen current and former Fed board members have affiliated with banks and companies that received emergency loans from the Fed during the crisis. Too much of the Fed's business was conducted in secret, known only by the bankers on various Boards and Committees. It must be required that the Government Accountability Office conducts a full and independent audit of the Fed, every year. (Sanders, 2017)

The Federal Open Market Committee, which is a committee within the Federal Reserve System (the Fed), under the United States law is in charge of overseeing the nation's *open*

market operations (e.g., the Fed's buying and selling of United States Treasury securities), could have prevented the financial crisis, if it had warned the public ahead of time. Clearly, those in charge failed to do their job. As stated earlier, the financial crisis could have been prevented if everything was made transparent, and the public was aware of the process. Since this was not the case, and the Corporate Governance system failed the public - who suffered the most, so there is an exigent need to fight this rise of unethical behaviour.

Unethical behaviour can occur at any point of time and can be displayed by anyone in the organisation, and if the number of employees involved in ethical violations is high, then this puts the reputation of the organisation at risk. The following examples will prove the argument.

According to the 15th Global Fraud Survey (2018) out of the 2550 respondents:

- About 11 % of companies have experienced a significant fraud in the last two years,
- 11 % of respondents stated it is common practice to use bribery to win contracts in their sector,
- 38 % of respondents stated bribery/corrupt practices occur widely in business in their country, and
- 13 % of respondents would justify cash payments to win/retain business when helping a business survive an economic downturn.

The last two years have seen an unprecedented level of fines from governments, with dramatically increased penalties being imposed by Brazil, Netherlands, the UK and Switzerland, among others. We continue to see more governments across the world introducing and enforcing anti-corruption laws. However, our global results show that occurrences of fraud and corruption have not reduced since 2014. From our experience, there is often a lag between the introduction of laws and real change being made by organisations. (p. 4, para 4)

In addition, the Global Fraud Survey (2018, p. 15, para. 4) also mentioned:

“When asked if their organisation has an anti-corruption policy and/or a Code of Conduct, 97 % of heads of compliance and 92 % of heads of internal audit surveyed stated this was the case. This was significantly lower for sales and marketing respondents at 77 %.”

This suggests that high-level policies may be in place, but there are key employees within organisations that are still not sufficiently aware of them.

It is obvious that though there may be mechanisms in place to punish unethical behaviour, clearly, the employees aren't aware of the Code of Conduct and existing rules of the organisation that they work in. If these unethical practices continue taking place in organisations, it will eventually be exposed.

So, to conclude, there must be clarity for all stakeholders in the organisation. *A set of guiding principles have to be formed.* The Corporate Governance system is perhaps not doing enough to protect all the stakeholders. Though the Corporate Governance system has to be altered, we need additional checks on the employees. Hence Business Ethics is what ‘more’ a company can do to stop unethical behaviour.

Business Ethics is not just for the public and other shareholders, but also for those within the organisation, working and involved in the firm in some form. If an employee works in an environment where his needs are disregarded, he is discriminated against for his sexuality, gender, race or language, the chances of him indulging in unethical behaviour is definitely high. If employees do not receive fair wages, are compelled to work in unsafe conditions, suffer in a

hostile workplace, they will not think twice before violating the company's ethics. The company owes it to the employees to create a conducive work environment, for those contributing to the organisation in one way or another.

If shareholders do not get their dividend on time, investors do not get the returns for their investment on a regular basis, they lose faith in the company, and will withdraw their investments. If a major investor finds out that the company is not involved in honest dealings, is feuding with other companies in the same sector, misuses the natural resources, harms the environment, produces low quality and unsafe goods, his reputation will be ruined. Hence, he may never invest in that company, driving away other current investors, and preventing any future investment from flowing in. Thus, Business Ethics must be implemented to balance the interest of all the internal stakeholders in an organisation as well.

The third reason for the need for Business Ethics is the role of a business within society. As a business functions within a society, it must contribute to that society in some manner. If a business has to grow financially, then it needs investors and employees, so it has to gain the trust of the members of the society, which includes both internal and external stakeholders (Rani, 2015). According to the survey conducted by McKinsey and Company (2002), investors make their decisions based not only on the current stock prices and returns of a company but also on their good Corporate Governance system. Whenever the investors lose faith in the Corporate Governance system, they will no longer invest in the company. Companies find it in their conscience to work towards helping the environment, and being involved in social change or good causes, and this has brought Business Ethics to the limelight. It also helps improve the reputation of the organisations, as it proves that they care about the world they work in.

Even if the company is not involved in activities that harms the society in anyway, having a regimented Code of Conduct/ Ethics will earn the respect and trust of the society. Just because a company is not involved in dubious practices or employs child labour, does not mean it has sufficiently contributed to society. Companies are expected to follow the law of the land, and any company that takes the trouble to go that 'extra mile' to help the society by creating a good work environment, through Corporate Social Responsibility, and an ethical work climate will always be extolled for its efforts. That's why Business Ethics should not be taken lightly.

The fourth and final reason for the need for Business Ethics is the most important one. If organisations continue indulging in unethical conduct, it is bound to be revealed, sooner or later. The backlash, negative media attention and disputes that will follow will destroy the company. The Volkswagen scandal is one of the best examples of the above statement. One of the most reputed and popular manufacturing companies in the world was found to be cheating on its emission tests in the United States. It has been labelled the 'diesel dupe'. In September 2015, the Environmental Protection Agency (EPA), a government department in the United States found that many Volkswagen diesel cars being sold in the nation had a 'defeat device', which is a software intended to cheat during the emission test, as it would change the performance of the vehicle to enhance the results. Volkswagen has confessed to cheating during emissions tests through this software (BBC, 2015).

Though Volkswagen claimed that they maintain the level of carbon emissions, they used the defeat software to cheat. This is an unethical act. As a result, the customers lost trust in the company, and the share prices plummeted by 25 %. The company had to bear the burden of heavy costs for compensating the owners. The company recalled 8.5 million cars in Europe,

nearly 2.4 million in Germany and approximately 1.2 million in the United Kingdom, and 500,000 in the US, in order to rectify their mistake. As a result of this scandal, Martin Winterkorn, the Chief Executive of the company resigned (BBC, 2015).

Thus, unethical behaviour cannot be hidden for too long. As all the dealings of a company are carefully scrutinised today, any ethical violation can destroy and mar the reputation of the company. The rise of media and social media ensures that the word travels fast, and it is nearly impossible to hide this matter. Nobody will trust a disreputable company. This holds good, irrespective of the size, country of origin and fame or recognition the company has. In conclusion, companies no longer just focus on maximisation of profits but are developing high standards of Business Ethics in order to obtain a license to operate (Zimmerli, et al., 2007).

In a weak regulatory climate, companies live under the misconception that they can get away with their bad behaviour. However, there are many regulatory bodies, both internal and external that keep the companies in check. They are:

1. **Investigative reporters** – some of the biggest corporate scandals in the world were uncovered by journalists. They are the fourth estate of the country. Hence, they are the watchdogs. They will always keep an eye on the business deals of every major organisation. Once a company is caught through a sting operation, the amount of media attention and hype can ruin the reputation of the company.
2. **Whistle-blowers** – whistle-blowing refers to when a present or former employee discloses information of the violation of any law, Code of Conduct, regulation, mismanagement, misuse of funds and abuse of power (U.S. Whistle-blower Protection Act (1989), as cited in Francis & Mishra, 2009). The information can be

furnished from those outside the company as well (Hoffman, (1990), as cited in Ghosh, 2012).

3. **Ethics Board/ Committee** – Ethics Board/Committees are formed in organisations to review and recommend to the Board of Directors and the management about ethical policies and procedures to improve the ethical climate of the company. Another role the Ethics Board/Committee play is to settle any ethical and legal disputes amongst employees and the organisation, solve any ethical dilemmas and formulate an excellent Code of Conduct.
4. **Ethics hotlines** – ethics hotlines are anonymous communication facilities that can be used to report ethical violations, in order to notify the Ethics Committee, so that they can take action accordingly. Once the tip is received, the Ethics Committee or Chief Ethics Officer begins to investigate, finds proof and if the complaint is true, then punishes the violator.
5. **Third-party evaluation** - in India, a government inspection will reveal the unethical practices in a company. These inspections are conducted on a regular basis, and can sometimes be impromptu. If found guilty of violating the Industry Code, or law, the company will be severely penalised.

Benefits of Business Ethics

The constant conundrum companies face - profit vs. ethics will come to an end, once companies discern the numerous benefits of being an ethical company. To some extent, corporate management requires companies to possess not just professional and technical skills, but more importantly, to understand the moral core of the society they operate in. Academic and technical qualifications are the basic, mandatory requirements these days, but emotional intelligence and empathy are additional requirements. Companies are expected to take responsibility for all their actions. Being socially competent, accountable, trustworthy, good at communication, veracious and ethical are traits that companies find necessary when it comes to handling customers, partners and employees and other stakeholders (Zimmerli, et al., 2007). Hence, there are numerous advantages to being an ethical company. They are as follows:

1. **Improves the reputation of the company** – any company that is ethical, is automatically held in high regard. Needless to say, ethical companies will gain a reputation for upholding high ethical standards and will be considered an exemplar for other companies in that sector. Other companies will learn to replicate the same ethical behaviour.
2. **Gets the backing of investors** – an ethical company always gets more investors and this will attract other investors to the company. Anytime the company wants to start a new business venture, the company's investors will support it, if it is feasible.
3. **Reduces the risk for shareholders** – ethical companies always maintain the trust of the shareholders. All the shareholders are well-aware of the legal and ethical practices of the company. They will not have to bear the brunt of dealing with the backlash of

any malpractice. They are aware that there is no cover-up of any type of unethical behaviour.

4. **Lower risk leads to higher capital** - ethical companies are usually low - risk companies. Hence, more people are encouraged to invest. Being an ethical company increases the chances of getting low - risk returns, which some people might be satisfied with ethical companies become reliable low- risk companies and help earn capital at a much faster rate.
5. **Increases the sales of the company** – the public will immediately purchase a product from a company that is known for its ethical practices. Consumers trust the company and are aware that their new product does not have any side-effects, as no such mistakes have been made in the past. For example: Amul, Tata Products, Wipro and Infosys.
6. **Joint ventures with other companies** – all companies want to voluntarily work with an ethical company that has a clean background. No one wants to work with an untrustworthy company that has violated several laws. Any company that has not obfuscated its investors and customers will have both local and international companies approach them for joint ventures.
7. **Good candidates apply to ethical companies** – graduates with excellent academic qualifications will want to join an ethical, scandal-free company. Ethical companies easily attract the best candidates, benefitting the labour force and talent pool of the company.
8. **Easier to achieve compliance, reducing the cost of damages and fines** – an ethical company usually complies with all the rules and laws set by the government. This

means that they will not have to incur damages and pay fines for defying the rules. This also means that the company will not have to undergo frequent third-party audits.

9. **Reduces absenteeism and boosts morale** – employees are always looking for a reason to work from home or avoid going to work every day. However, if an organisation is highly ethical and treats people equally, the work environment will become more inviting. Hence, employees know that if they face any discrimination it will be sorted out, and they can relax. They will be motivated to work harder and achieve more than the required target. A strong ethical climate will boost the morale of the employees, they will voluntarily contribute to the organisation. They will become Go-Getters instead of just being Fence-Sitters. It will also reduce employee turnover.

10. **Fulfils the objectives of Business Ethics** - being ethical will also assist companies in fulfilling the important objectives of Business Ethics, which will create the overall ethical climate of the company. They are:

- Business Ethics sets the rules and principles that applies to all businesses.
- Business Ethics is concerned with the application of ethical standards and Values to businesses.
- Business Ethics provides managers guidelines as to how to behave and ensure that their subordinates also behave ethically.
- Business Ethics helps organisations pinpoint areas where ethics is not being implemented or does not exist, and form an ethical code to regulate such areas.
- Business Ethics can help organisations make decisions that are altruistic, unbiased, and justified (Ghosh, 2012, p. 104).

Why do people behave unethically?

The very characteristic of ethics is that it is not very straightforward. It would be easy to be ethical if being ethical meant detecting unethical behaviour and dismissing the wrongdoers. However, that is not always the case. Sometimes ethical and altruistic employees commit unethical acts. Ethical violations can occur because of ambiguity in the Code of Conduct, lack of knowledge, poor management system, insufficient information, the need to get ahead at work and peer pressure from superiors and competitors. Hence, good people can also behave unethically, based on the context or situation. Though a company has a Code of Ethics and stringent Corporate Governance system, there are still those who behave unethically. Though there are many restrictions on unethical behaviour, companies sometimes pardon it.

As described by Lysons (1989), a study was conducted to outline the causes for unethical behaviour of employees:

- The employee's personal beliefs and their own moral Code of Conduct.
- The attitude of managers towards the compliance of the code - whether they themselves break or follow the rules, and reprimand those who transgress it.
- The presence and absence Code of Conduct/Ethics of the company and its policies.
- The demeanour of other colleagues at work – whether other employees break or comply with the rules.
- Whether there is a strong or weak ethical climate that exists in the company and industry.
- The economic position of the employee – though there is a belief that those who are from poor economic backgrounds, tend to commit fraud for financial gain, this is not the case in all situations (as cited in Badenhorst, 1994). There are many cases where Nirav Modi and

Vijay Mallya who are from affluent backgrounds, have also allegedly committed large - scale financial fraud.

What is the extent of unethical behaviour?

As per a 2015 University of Notre Dame survey on ethics in the financial services, almost 51 % of Wall Street executives thought it was likely that their competitors engaged in unethical or illegal activity to gain an edge. More than one – third had either witnessed or had first-hand knowledge of wrongdoing. Nearly one in five believed that they had to engage in illegal or unethical activities to be successful. And a quarter had signed or been asked to sign confidentiality agreements that prohibited reporting illegal or unethical activities to the authorities (Sanders, 2017, p. 59).

Collins (2013) illustrates that the following is the extent of unethical behaviour:

1. Around 67% of Chief Financial Officers (CFOs) have pressurised to misrepresent corporate results.
2. About 23% of middle managers have written a fraudulent internal report.
3. Approximately, 75% of employees have stolen at least once from their employer.
4. Nearly 33% of employees calling in sick are really tending to personal needs or feel entitled to a day off.

Unethical practices in different sectors

For this project, seven sectors have been approached to gather data. Each sector has its own challenges. Hence it is necessary to find out if some violations are specific to each sector. The list of unethical practices that take place in the IT/Software, Manufacturing, Finance, Public utilities/ Government sector, Consultancies, Health/Pharmaceuticals and Education are mentioned below.

Unethical practices in IT Industry

The following are the unethical practices in the IT industry:

- Spreading viruses
- Piracy
- Hacking
- Spoofing – this is a technique used to gain unauthorised access to computers, where the hacker sends emails, claiming to be from a legitimate source, asking to change the password or click on links in the email to obtain the user's password, account and financial details.
- Infringement of copyright materials
- Credit card fraud
- Account take-over
- Phishing
- Cyber extortions and electronic message transfer
- Unauthorised sharing of information (Ghosh, 2012).

Unethical Practices in Human Resource Management

The following are unethical practices that are rampant in the field of Human Resource Management (HRM):

- Many firms use discriminatory policies in recruitment, promotion, wage payment and even in work allocation. This includes gender and caste or religious discrimination. Firms do not make provisions for the safety, health, job satisfaction and comfortable working environment.
- HRM policies may be absent or biased with respect to promotion, recruitment, reward and punishment.
- Worker's rights and unionism are not looked upon favourably by employers.
- While practicing downsizing and layoffs, sufficient prior notice is not given to employees.
- Many firms are engaged in exploiting workers by giving them unjustifiably lower wages.
- Sometimes privacy is not allowed and this goes against the women workers.
- Forced labour and child labourers are used by many firms.
- Hiring and firing policy is extended too far to threaten the workers.
- Sexual harassment prevails in many firms in both overt and covert forms.
- Industrial disputes are solved high-handedly without much consideration for the inferior economic status of workers. Conflicts are not settled through negotiations and co-operation.
- For the exploited workers, compensatory justice policy is either delayed or completely denied. No affirmative actions are permitted.
- Concealment/incorrect or incomplete information revealed by employees on their CVs (Ghosh, 2012).

Unethical practices in Manufacturing

The following is the list of unethical practices that exists in the manufacturing sector:

- Adulteration
- Dangerous toys
- Incorrect and incomplete labelling.
- Dumping of withdrawn products.
- Defective product manufactured and compromise on safety.
- Outdated production line methods.
- Misleading endorsement advertising.
- Unsafe design of consumer products.
- Lethal fumes in modern house fires.
- Illicit production of alcoholic beverages.
- Short-term planning of product life cycles.
- Unethical practices in the apparel industry.
- Irresponsible tobacco and cigarette advertising.
- Incorporation of carcinogens into consumer goods.
- Uncontrollable manufacture of destructive products.
- Proliferation of manufacturing capability of chemical weapons (The Encyclopaedia of World Problems and Human problems,)

Unethical practices in Education

The major unethical practices in education include:

- Combating fake qualifications and diplomas.

- Violence in schools.
- Illegal fees.
- Misuse of funds.
- Theft of school equipment.
- Discriminatory attitudes.
- Sexual harassment.
- Unjustified absenteeism.
- The collection of illegal fees.
- Plagiarism/self – plagiarism (UNESCO, 2009).

Unethical practices in Health and Pharmaceutical industry

The following are the unethical practices that take place in the health and pharmaceutical industries:

- Lack of medical ethics.
- Nursing malpractice.
- Abuse of medical and psychological techniques.
- Degradation of the medical profession.
- Abusive medical practices.
- Unethical practice by doctors.
- Immoral physicians.
- Professional misconduct by medical care workers.
- Misuse of medical diagnosis.
- Medical misconduct.
- Temptations of health practitioners.

- Dispensing without authorised prescriptions/overmedication/unnecessary combination drugs for quick relief (The Encyclopaedia of World Problems and Human problems).

Unethical practices in Finance

The following are the unethical practices in Finance:

- For gathering money for investment it is necessary to show that the financial health of the company is very safe and sound. Hence, the **company creates incorrect financial data and** manipulates them to suit the requirements. This practice is also known as creative accounting.
- The share prices are artificially raised without any economic fundamentals justifying this action. In order to raise the share prices, in the prospectus, the Company's performance is glorified. The public is cheated this way. There may be some government rules and regulations, but there is a regulatory capture, where government officials are bribed.
- Insider trading is a very notorious form of financial practice. People having Insider information buy most of the shares of a company when the conditions are very favourable, and the outsiders get less number of shares.
- The merger of companies may be a financial red herring and deceptive. A good company merges with an old company in order to evade taxes or to reduce competition. After the merger, the joint company becomes strong and it is possible to increase prices and market share. Sometimes merger is resorted to take advantage of the brand image of one of the companies.
- Another unethical financial issue is creating unusual delay in making payments to suppliers, taxes, excise duties and legal payments.

- Many companies open accounts in different banks to avoid taxes and avoid adjustments against loans.
- Companies may create many independent subsidiaries branches and make Benami property transactions to avoid payments to government and taxes.
- The banking sector is not free from fraud. Several types of frauds are committed in the banking sector as well. These frauds are of three types:
 - Involving banking officials
 - Non – involvement of banking officials but there maybe the element of dereliction of duties, or
 - Frauds committed by outside elements.
- Many a time, a company does not share the correct information in the stock market. It commits fraud and there is information asymmetry.
- Sometimes, excessive or inappropriate trading on behalf of a client is done by a broker. This is called churning. It is a breach of fiduciary duty.
- Loans are often taken from those institutions which are ready to do some personal favour.
- Companies falsify bills of purchase to inflate cost in order to reduce taxes.
- Financial irregularities also include cheating employees in the matter of payment of regular wages, medical bills, bonus, LTC, children's tuition fees, and so on (Ghosh, 2012).

Unethical practices in the Government/ Public Utilities

The following are unethical practices in government bodies and public utilities sector:

- Bribery, graft, patronage, nepotism and influence peddling.

- Conflict of interest, including activities such as making financial transactions for personal advantage, and accepting outside employment during tenure in government without declaring this.
- Misuse of inside knowledge, for example, through acceptance of a business appointment after retirement or resignation.
- Favours relatives and friends in awarding contracts or arranging loans and subsidies.
- Accepting improper gifts and entertainment.
- Protecting incompetence.
- Regulating trade practices or lowering standards in such a manner as to give the advantage to oneself or relatives.
- The use and abuse of official and confidential information for private purposes (Mle, 2012).

Need for a Code of Ethics

Each industry has its own list of unethical practices as mentioned above. So how do you prevent the repetition of such unethical behaviour? Punishing the offender, after the crime is committed is one way to set an example for others. Preventing unethical behaviour from occurring is better than punishing the perpetrator, who may not necessarily have vile intentions. As stated earlier, not all violations are committed because of greed or gain. Some employees may not even be aware that they are doing something wrong, as the rules maybe vague, or they are new employees who haven't been oriented properly. That's why we need a Code of Conduct/Ethics.

“Code of Ethics are voluntary statements that commit organisations, industries, or professions to specific beliefs, values, and action and/or that set out appropriate ethical behaviour for employees” (Crane and Matten, 2012, p. 190). “A Code of Conduct describes acceptable behaviours for specific situations that are likely to arise” (Collins, 2013, p. 60).

Corporations have been establishing and formulating Codes of Conduct/Ethics for a long time, so it's not a new concept. This topic has been receiving a lot of attention since the 1970s. As per the Treadway Commission Report (1987), “all public companies should establish effective written Codes of Conduct in promoting honourable behaviour by corporations” (Rezae, Elmor & Szend, 2001). Codes are formed to achieve the following goals:

1. Fostering their corporate moral principles and values.
2. Communicating and monitoring their ethical expectations to employees.
3. Demonstrating their commitment to ethical values.
4. Providing legitimacy for possible legal actions (Rezae, Elmor & Szend, 2001)

5. "Helping individuals resolve ethical dilemmas" (Brenner and Molander, (1971); Montoya and Richard, (1994); Rezae, Elmor & Szend, 2001).

What is a Code of Ethics?

A Code of Ethics is a Values statement, which upholds the moral standards of an organisation. The purpose of a Code of Ethics is to explain how to behave in a manner in which the society and organisation approve of. A Code of Ethics does not involve a list of legal rules that an employee must follow, unlike a Code of Conduct. It tells you how to behave in an appropriate manner with other employees and external stakeholders. A Code of Ethics is an organisation's effort to standardise ethical values for the benefit of all its stakeholders, that is anybody within the organisation and members who do not belong to the organisation, but are working and interacting with it in any capacity (Elankumaran, (2006); Weller, (1988); Mahajan and Mahajan, 2016).

Codes of Ethics cover a wide range of ethical issues that arise in any business organisation at any point of, during any activity. A Code of Ethics is formulated by organisations in order to prove that they do not just believe in complying with the legal rules of the industry and country, but also care about being morally and ethically right in all situations (Wotruba, Chonko & Loe, 2001, as cited in Mahajan and Mahajan, 2016).

Crane and Matten (2012) note that there are four main types of ethical codes:

- 1) **Organisational or Corporate Code of Ethics** - these are the codes of only one organisation. They are relevant to only that particular organisation and the aim of these codes is to encourage the right kind of behaviour from all the employees.
- 2) **Professional Codes of Ethics** - professional groups have their Code of Conduct, which holds good only for their group. Groups like The Chartered Institute of Management Accountants (CIMA), National Union of Journalists (NUJ), and the American

Psychological Association (APA), all have formulated their own, different codes, which the employees must abide by.

- 3) **Industry Codes of Ethics** - many industries have their own Code of Conduct. This code must be inculcated by all the companies and the employees that belong to the particular industry.
- 4) **Group code** – there are programmes, groups, and organisations who form their own Code of Conduct, for those who belong to the programmes. “For example, a collaboration of various business leaders from Europe, the US and Japan resulted in the development of a global Code of Ethics for business called the CAUX Roundtable Principles for Business” (Ghosh, 2012).

Need for a code

A Code of Conduct/ Ethics is needed, which employees can abide by, in order to decide how their company functions. There are many compelling reasons to have a Code of Ethics. First, a Code provides a consensual ethical framework, about an organisation’s commercial and industry functioning, which is disseminated to all the stakeholders. Second, ethics sets standards, with the aim of reducing any uncertainty with regard to rules, employee behaviour, and their actions, as it will expound on what is good and bad conduct. Ethics deals with internal values which are a part of work – culture. It plays a pivotal role in decision-making, as it determines whether the actions of an employee or even the Board can lead to profit or loss in the organisation. Third, a Code of Conduct/Ethics will prove that the company cares about its stakeholders, and it takes their well-being seriously. A Code protects all innocent stakeholders from being affected by unethical behaviour. Fourth, the organisation that has a strict Code will not have to incessantly advertise to the world about its good behaviour, as it will be done

through word of mouth. This will retain old customers, as well as help, attain new ones (Francis & Mishra, 2009).

Ethical dilemmas

A Code of Conduct/Ethics can act as a reference for proper behaviour in the work environment and thus acts as a guidebook when it comes to resolving ethical dilemmas. Viewing ethics in this manner shows that employees are faced with choices, making them choose the right/correct decision that carves the path for an ethical life while keeping in mind the relationships with other stakeholders in the company. From the above statement, we can derive that employees do face ethical dilemmas (Taimini, 2017).

Loewenberg and Dolgoff (1996) believe that an ethical dilemma is a conflict in which a person must make a choice between two or more relevant, but contradictory ethical directives, or when every alternative result in an undesirable outcome for one or more persons (as cited in Koenig, 2004). As per Pontiff (2007), “ethical dilemmas arise when two sets of values are in conflict requiring individuals to choose between them” (as cited in Moreno, 2011). Ethical dilemmas will always be a part of our daily work life, and there is no single method applicable to solve all ethical dilemmas, as they are different in nature (Christian and Gumbus, 2009). In organisations, leaders are faced with ethical dilemmas on a daily basis as they balance their own ethical values, to match that of their company’s. There is bound to be some conflict when leaders do not concur with the practices of their company (Moreno, 2011).

Ethical dilemmas consist of the following features:

1. Social cost and private gains are different.
2. No linkage is established between the two alternative courses of actions (choices).
3. Competitive behaviour gains predominance in many cases.
4. There may be an inconsistency between goals (e.g. materialism vs altruism)

5. Cross-cultural value differentials do exist.
6. There are some pressures from somewhere.
7. A problem of right choice is the main issue.
8. Very often, the exact impact of the two alternatives may not be known or determined (Ghosh, 2012).

A dilemma may arise as the result of a conflict of doing what is wrong, instead of what is right. Another reason why an ethical dilemma can occur is because the conflict between at least two ethical principles both of which could lead to equally good outcomes. In this situation, following one principle leads to violation of another, or in some cases, both principles seem equally feasible. With regard to choosing equally wrong choices, the choice which affects the company and individual to a lesser extent must be chosen (Tota & Shehu, 2012).

If doing what is right produces something bad, or if doing what is wrong produces something good, the force of moral obligation may seem balanced by the *reality* of the good end. We can have the satisfaction of being right, regardless of the damage done; or we can aim for what seems to be the best outcome, regardless of what wrongs must be committed. (Tota & Shehu, 2012)

For example: If an employee has to become a whistle-blower in his own company, and reveal its malpractices, the company, its employees and its reputation will be affected. But once the unethical practice is revealed, it will stop due to condemnation from all stakeholders. Though the employee is risking his own reputation and his company's, he is being ethical, instead of complicit. In another contrasting scenario, if a superior does not promote his employees, though they are worthy of it – with the aim of ensuring that they display their maximum potential, it

also results in favourable outcomes. Though the superior is not incentivising his employees but challenging them to do better in order to receive their incentives, it is wrong to withhold incentives and promotions, but ultimately has a positive outcome in the end. The intention of the employer is obviously good, and he is doing this for the benefit and overall growth of his employees.

Causes of Ethical Dilemmas

“Ethical dilemma arises because ethical standards are not codified, and disagreements and dilemmas about proper behaviour often occur. An ethical dilemma arises in a situation when each alternative ‘choice’ or behaviour, is undesirable, because of potentially harmful consequences” (Taimini, 2017). Ghosh (2012) insists that the following are the causes of ethical dilemmas:

- 1) **Individual** – an employee’s morals and values may clash with that of the social, family and local culture. Ex: A British employee working in the U.S. may prefer drinking alcohol during lunch, but he is not allowed to do so, as it is prohibited in American work culture.
- 2) **Family** – an employee’s family values maybe in conflict with values of the business organisation he is working in. Ex: An employee may not want to take up projects that harm the environment or animals, if he belongs to a family of environmentalists.
- 3) **Organisation/workplace** - the culture of the organisation may clash with the employee’s personal values. Ex: It may be customary for the organisation to receive gifts from their customers or partners and the employee with high integrity will not want to accept gifts, as it may seem like a bribe.

- 4) **Society** – the social norms that exist in the society that the employee resides in, may not match the employee's personal values. Ex: An employee who espouses progressive feminist views will not be able to settle in a patriarchal society.
- 5) **Cross-cultural** - the culture of one country contrasts with work - culture in another country. This type of dilemma occurs in international business and during joint ventures between companies in two countries.

Resolution of Ethical Dilemmas

Resolving ethical dilemmas is not as easy as it seems. Some dilemmas are easy to solve, and some are very complex in nature and cannot be solved quickly. With regard to the former, the dilemma would usually consist of choosing between right versus wrong. If employees have done something wrong, then they will have to deal with the consequences and be punished. But in the case of the latter, which usually involves right vs. right ethical dilemmas, where both options are of equal moral importance, it is really difficult to solve. Another dilemma that is equally intricate also appears in the course of daily work life - wrong vs. wrong. It is prudent to choose the option which will affect the organisation to a lesser extent (Ghosh, 2012). Hence, solving an ethical dilemma is not one-dimensional and must not be underestimated at any cost.

Cross-cultural sensitivities in developing Corporate Ethical strategies and practices

Cross-cultural sensitivity is an aspect that is rarely discussed in India. As the country is diverse in both religion and caste but is also multi-lingual, cultural sensitivity is an expected norm in the workplace. When South Indians migrate to work up north and vice-versa, coping with the local corporate culture can be quite a hurdle for some employees. What possibly is considered offensive in South India, maybe the norm in North India. In order to prevent any miscommunication or misunderstanding in the workplace, being culturally sensitive is a given.

“Geert Hofstede was one of the first to attempt to develop a universal framework for understanding cultural differences in managers’ and employees’ values based on a worldwide survey. Hofstede’s work focuses on ‘value systems’ of national cultures” (Zimmerli, et al., 2007, p. 229). These value systems are represented by four different dimensions. They are:

- 1) “Power Distance: This is the extent to which inequalities among people are seen as normal. This dimension stretches from equal relations being seen as normal to wide inequalities being viewed as normal” (Zimmerli, et al., 2007). Power distance is categorised into small and large power distance work cultures. This talks about people’s perception within a particular culture about the level of acceptable inequalities that should exist among the members of the organisation. In small power distance cultures, the society believes that inequalities among individuals must be as minimal as possible, and everyone is treated equally. Hierarchies exist in organisations, only to do delegated jobs. During any decision-making process, superiors consult juniors, and any use of influence of power or position is condemned. However, large power distance cultures are completely the opposite. Inequalities among employees is a norm. Organisational hierarchy replicates this larger

power distance, and subordinates are given orders, the distance between the privileged and unprivileged is really wide (Zimmerli, et al., 2007).

- 2) “Uncertainty Avoidance: This refers to a preference for structured situations versus unstructured situations. This dimension runs from being comfortable with flexibility and ambiguity to a need for extreme rigidity and situations with a high degree of certainty” (Zimmerli, et al., 2007). In weak uncertainty avoidance cultures, ambiguity in instructions and work life is prevalent. Rules exist for only important or mandatory issues, and employees know how to work in such environments and work hard only when it is necessary. Employees belonging to weak uncertainty avoidance cultures are laid-back, tardy and often motivated by incentives, and they work in companies that give them a superior status in society. Strong uncertainty avoidance cultures make it their goal to erase any uncertainty that arises in the workplace. Employees of such cultures strive to ensure that there is absolute clarity in company rules, Code of Conduct, even instructions and conversations irrespective of whether it’s a board meeting or not. Employees ensure that there is no confusion with any aspect related to work. Anything that they are unfamiliar with could be proven detrimental to their career in the long run, hence they strive to cover any gaps in knowledge. Everybody works hard, not just to obtain promotions or incentives. Employees in this work culture are punctual (Zimmerli, et al., 2007).
- 3) “Individualism-Collectivism: This looks at whether individuals are used to acting as individuals or as part of cohesive groups, which may be based on the family (which is more the case with Chinese societies or the co-operation (as may be the case in Japan)” (Zimmerli, et al., 2007). In individualist societies, people can fend for themselves without the aid of their families. Organisations help employees, and in turn, are benefitted by their employees. Individuals are employed purely on their qualifications and competency, and not by influence or favouritism. Managers look after individuals or small groups of people

in the organisation and work has priority over family and friends. In contrast, collectivist societies look at qualifications, familial relationships, and recommendations from higher-ups during the recruitment process. Managers handle large groups of employees in organisations and family is prioritised over profession (Zimmerli, et al., 2007).

- 4) Masculinity-Femininity: “Hofstede distinguishes ‘hard values’ such as assertiveness and competition, the ‘soft’ or ‘feminine’ values of personal relations, quality of life and caring about others, wherein a masculine society, gender role differentiation is emphasised” (Zimmerli, et al., 2007). In a masculine society, men are expected to be strong, tough and dominant, and women - soft-spoken and calm. Managers must know how to handle all situations and make instant decisions during any conflict, based on their own volition. Such societies are characterised by cut-throat competition, efficiency and the individual with the best performance in the workplace is favoured and well- respected. The working conditions are not always favourable to women. On the contrary, in feminist societies, managers seek advice, and concurrence before they make any decisions. In order to promote gender equality, the quality of working conditions is tailored to be favourable for women. In this culture, both men and women share familial and financial the responsibility. High performers at the organisation are not favoured, but are treated equally in comparison to low or average performers (Zimmerli, et al., 2007).

India is a larger power distance culture, where those with seniority in age and position wield all the power. India has both strong and weak uncertainty avoidance, based on their respective work environment and India is indeed a collective society. Migrating from one work culture to another is bound to happen. Being sensitised towards the culture you are working in, irrespective of the work culture you come from has now become a part of the business world. Cross-cultural sensitivity at the workplace helps create a cohesive work environment and

increases productivity. This holds good, if there are foreigners working in India, or if Indians are going to work in other cultures.

The link between culture, corporate culture, and ethics

Although culture has an impact on ethical perception, it is not sufficient to explicate on the numerous reasons that outline the display of different behaviours in the same situation. Age, sex, religion, etc., are also contributing factors to ethical perceptions. An employee's integrity, morals, loyalty, personal satisfaction with the organisation and how the individual has blended into the company add to their ethical values. An employee's ethical perception plays a vital role in the decision-making process. Their ethical perception is also influenced by their own feelings, their family and the ambience they were raised in. Hence, every individual irrespective of being from the same culture, exhibits varied behaviour and makes different choices with regard to ethics.

However, corporate culture can take on the responsibility of creating a uniform, ethical atmosphere in an organisation. Based on the analysis of the links between corporate culture and ethics, they can play two different roles. First, corporate culture can establish ethics in an organisation. Second, it can also be the cornerstone of the company's Code of Conduct/ Ethics, to the point where employees refer to it to make any decision, and use it as a substitute on occasion, putting aside personal ethics and cultural background. Corporate culture can improve business ethics in the organisation. They embody all the shared beliefs, value system and it explains what the company means to all its employees (Lozano, 1989).

As per Zimmerli, et al., (2007), companies would find it beneficial if they incorporate the following measures in their companies to develop a solid Code of Conduct:

- Provide a forum for employees to discuss topics like stealing, bribery, receiving gifts and whistle-blowing, to obtain insight and consensus regarding these issues.

- Conduct regular discussions with all the major stakeholders like suppliers, important customers, both local managers and managers at the headquarters, to get their opinion on how to handle such topics.
- Provide guidelines for ethical dilemmas which eases the decision – making process so that it falls in line with the Code of Conduct/Ethics.
- Training managers to learn the art of ethical decision – making, sensitising them to different cultures and understanding cultural differences, so that they can cope better and work efficiently with employees from different parts of the country and the world.

What is Corporate Governance?

The definition of Corporate Governance usually falls into two categories. “The first set of definitions concerns itself with a set of behavioural patterns: that is, the actual behaviour of corporations, in terms of such measures as performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders. The second set concerns itself with the normative framework for governance: ie, the rules under which firms operate with such rules being influenced by external sources like the legal system, the judicial system, financial markets, and factor (labour) market” (Som, 2006).

Arya, Tandon and Vashisht (2003) suggest that “Corporate Governance by definition: is the code of practice by which a firm’s management is held accountable to capital providers for the efficient use of assets. It exhibits how its mission its value and philosophy govern an organisation”.

The term ‘Corporate Governance’ did not come into use until the 1980s. This term refers to the way businesses are directed and controlled through rules, policies, and laws. It involves balancing the interests of all the stakeholders in the company, like shareholders, employees, customers, suppliers, government and the general public. Governance consists of issues like the structure and composition of the board, their tasks, roles and responsibilities and most importantly, it outlines the framework for the board’s accountability to its all stakeholders. It also talks about how the board delegates responsibility throughout the organisation, to ensure proper supervision, smooth flow of information so as to have an existing system of checks and balances.

In recent years, the Corporate Governance framework has been constructed keeping in mind not just the legal, judicial, regulatory, and industry milieu of the country, but also by considering factors such as Business Ethics, Corporate Social Responsibility and corporate awareness. As a result of large corporate scandals, and strong feelings of the public with regard to corruption, weak regulation and keenness to work on social change, the Corporate Governance framework is constantly altering.

What is good Corporate Governance?

Arya, Tandon and Vashisht (2003) note that a good governance system should achieve the following goals:

- Generates ideas through the participation of all stakeholders.
- Harmonises different viewpoints while protecting the interests of the minority stakeholders.
- Governance assumes greater significance for publicly traded companies because of the separation of management from shareholders in general, leading to conflict of interests of the management and shareholders.
- Pre-requisites of good governance are education and technical skills. Core competency and a system of effective communication, both internal and external.
- The primary objective of the management of a publicly traded company is to enhance the value of the enterprise (p. 4).

In order to achieve a good Corporate Governance system, a company must rely on the *cornerstone* of Corporate Governance - *its principles*. These principles keep the best interest of the employees, shareholders and other stakeholders in mind. They decide how the company is run.

The following are the main principles of Corporate Governance:

1. **Ensuring the basis for an effective Corporate Governance framework;** this principle emphasises the role of corporate governance framework in promoting transparent and fair markets, and the efficient allocation of resources. It focuses on the quality and consistency the different elements of regulations that influence corporate governance practices and the division of responsibilities between authorities. In particular, new emphasis is placed on the quality of supervision and enforcement. It also includes a new principle on the role of stock markets in supporting good corporate governance.
2. **The rights and equitable treatment of shareholders and key ownership functions;** this principle identifies basic shareholder rights, including the right to information and participation through the shareholder meeting in key company decisions. This principle also deals with disclosure of control structures, such as different voting rights. This principle also includes the use of information technology at shareholder meetings, the procedures for approval of related party transactions and shareholder participation in decisions on executive remuneration.
3. **Institutional investors, stock markets and other intermediaries;** this principle addresses the need for sound economic incentives throughout the investment chain, with a particular focus on institutional investors acting in a fiduciary capacity. It also highlights the need to disclose and minimise conflicts of interest that may compromise the integrity of proxy advisors, analysts, brokers, rating agencies and others that provide analysis and advice that is relevant to investors. It also contains new principles with respect to cross-border listings and the importance of fair and effective price discovery in stock markets.
4. **The role of stakeholders in corporate governance;** the principle encourages active co-operation between corporations and stakeholders and underline the importance of recognising the rights of stakeholders established by law or through mutual agreements.

The principle also supports stakeholders' access to information on a timely and regular basis and their rights to obtain redress for violations of their rights.

5. **Disclosure and transparency;** the principle identifies key areas of disclosure, such as the financial and operating results, company objectives, major share ownership, remuneration, related party transactions, risk factors, board members, etc. The new issues include the recognition of recent trends with respect to items of non-financial information that companies on a voluntary basis may include, for example in their management reports.
6. **The responsibilities of the Board;** this principle provides guidance with respect to key functions of the Board of Directors, including the review of corporate strategy, selecting and compensating management, overseeing major corporate acquisitions and divestitures, and ensuring the integrity of the corporation's accounting and financial reporting systems. New issues in this principle include the role of the Board of Directors in risk management, tax planning and internal audit. There is also a new principle recommending board training and evaluation and a recommendation on considering the establishment of specialised board committees in areas such as remuneration, audit and risk management (G20/OECD, 2015).

The need for a good Corporate Governance system

In 2008, Satyam Computers Services Ltd was one of the world's leading global consulting and IT services company. After its corporate fraud was detected, the company developed a terrible reputation, its former employees were distrusted and none of the IT graduates wanted to work for Satyam anymore.

Satyam was caught up in one of the biggest corporate frauds in the world that led to the need for better Corporate Governance. The scandal broke out in 2009 when Satyam's founder and

chairman confessed that the company's accounts were tampered with. He disclosed a INR 7000 crore accounting fraud in the balance sheet.

The people found guilty were Satyam's founder, Ramalinga Raju, his brothers, the company's former Managing Director, B. Rama Raju; former Chief Financial Officer, Vadlamani Srinivas; former PwC auditors Subramani Gopalakrishnan and T Srinivas; and Satyam's former internal Chief Auditor V.S. Prabhakar Gupta. Needless to say, the fraud took place at the highest echelons of the organisation, and by those regulators, who were in charge of auditing and revealing any accounting fraud that takes place.

As a result of this scandal, Citibank froze 30 of Satyam's bank accounts. Ramalinga Raju and his younger brother B. Rama Raju were jailed. The central government disbanded Satyam's board and appointed 10 of its own directors. Satyam was removed from Sensex and Nifty, which is India's stock market index, and the CBI began its investigation and filed three charge sheets against the company (The Hindu, 2015).

Ironically, Satyam won the Golden Peacock Global Award for excellence in Corporate Governance in 2008. It is the UK based World Council for Corporate Governance which later decided to revoke its highest honour, after the scam broke out. The company also won Best IR Website in the Asia Pacific and Africa region for providing complete, accurate and timely investor relations information awarded by MZ consult and Partner Innovation Award for Anti-Money Laundering (AML) solution, awarded by Pegasystems (Agrawal, 2009).

There are other such examples that have emerged in India in recent years. Punjab National Bank, India's second-largest state-run bank, claimed that it had been swindled of nearly \$2.2

billion dollars allegedly by two jewellery groups headed by famous jewellery designer Nirav Modi and his uncle Mehul Choksi. They had done so by raising credit from overseas branches of other Indian banks and by using illegal guarantees issued by the staff of Punjab National Bank at an Indian branch over a period of several years. After an internal investigation by PNB, it was revealed that the fraud might have been committed by a handful of employees, and it escaped detection because of the remiss attitude of the employees who did not bother to make note of the fake guarantees sent through SWIFT, the financial messaging system in the bank's core accounting software, and thus, the fraud went unnoticed for years (Reuters, 2018). Modi's offices have been raided, and he is currently trying to flee from the legal action in India. The Interpol has issued a red corner notice against him.

Similarly, one of India's biggest liquor baron, Vijay Mallya is wanted in India on charges of fraud and money laundering of approximately INR 9,000 crores. Mallya fled the country, as he owes the above mentioned astronomical amount to various banks. He has lost the court case against 13 banks, who filed a case against him in a UK court. The judge presiding over the case ordered the freezing of Mallya's assets and upheld an Indian court's ruling that the banks had the right to recover the \$1.55 billion from him.

Other examples of such cases are American giants like Enron, WorldCom, and Tyco etc. The reason for these companies disappearing is all due to unethical practices. These companies committed large-scale financial fraud, by lying about their current stock price, annual revenue, embezzling company funds, whilst the stakeholders pocketed vast amounts of wealth. All of this was done by the skilful manipulation of the owners, external and internal auditors of the company. After the stock of these companies crashed, and their fraud was revealed, the public outcry and indignation from all the stakeholders led to the need for accountability and

transparency in business dealings. The fraud not only affected the employees of the companies but other shareholders, investors and the public.

The failures of these giants bring out the importance of a good Corporate Governance structure, making it evident that there has to be a distinction of power between the owner, the Board of Directors and the management. This will guarantee that the management will look after the governance processes/ procedures and the Board of Directors can provide policy directions for the organisation (Economics Discussion, 2018).

But the sole reason for the downfall of these companies was not just the fault of those who committed crimes in the company. Another reason for the downfall of these companies indicates the failure of communication between the auditors, shareholders, employees, and executives. Their lack of organisational responsibility, proper and open communication channel also contributed to the disintegration of these companies. Nobody was aware of what was clearly going on in their company. This holds good for the external auditors and regulators. All of this highlights the lack of a good governance system.

The behaviour of the regulators was the major cause of their downfall. Businesses are supposed to obey the law and be veracious and transparent. Both internal and external regulators must make sure that this is the case with every organisation. Companies that are small or average sized are easily audited and any fraud is quickly detected. But with regard to the above-mentioned cases, the glacial pace with which the regulators began intervening, upon receiving the information, begs to address the question, as to whether they are using the information obtained in an effective manner or not (Bavly, 1999). It also addresses the need to find out what

they do when they receive the information, and why they fail to prevent unethical behaviour or take proper action.

There is a minimal exchange of information and intelligence between regulatory agencies. They work together only when they are intimated about the fraud, and usually, the issue would've escalated to a situation beyond repair and intervention. Sometimes, agencies do not work together, even in this situation. Until they have detected some suspicious activity while reviewing a company, the parties involved in developing the framework of Corporate Governance do not communicate with each other. If all the parties, not just the internal and external auditors, but the Board of Directors, employees, and major shareholders have an open channel of communication, they can prevent any major problem, which includes the financial collapse of a company. So, it is futile to believe that the disgrace and loss incurred by the multinational giants have led to the placement of procedures that will prevent similar incidents of fraud from happening (Bavly, 1999).

After the string of large-scale fraud, financial analysts concurred that the internal controls in the organisations had failed to handle the new challenges that have risen in this new and liberalised era of competition. There are new ways of committing fraud. As everybody wants to tap into the international market for the purpose of exponential growth, to please their investors, companies are compelled to perform. Hence, the need to engage in unethical and fraudulent activities also increases (Arya, Tandon and Vashisht, 2003).

In order to prevent companies from committing any type of fraud again, there is a palpable need for a strict Corporate Governance system around the world.

Corporate Governance in India

The term 'Governance' is derived from the Latin word 'Gubernare' which means to manage, rule or control. Governance also means to have an established standard framework, which provides you with the opportunity to make use of the power and be held accountable in case any problems occur during the process of ruling the nation. However, after the 1990s, the term has gained importance in the corporate world (Sarkaria, 2008).

The concept of Governance in India is derived from the book Arthashastra written by the scholar Kautilya, who lived during the era of Chandragupta Maurya of the Gupta dynasty. Agarwal (2003) claims that "there is a famous quote in the Artha Shastra. 'In the happiness of his subject lies the happiness of a king, in their welfare is his welfare. He shall not consider as good only that which pleases'." (Spedding, 2009).

During the time of Indian independence in 1947, the country had a fully functioning stock market, a manufacturing sector, a banking sector, and complied with the British corporate practices. The creation of a better Corporate Governance system in India is constantly emphasised upon because the public is doubtful of the practices taking place in large corporations. The government has tried to control the behaviour of the private sector by imposing several laws, covering any possible and important areas they could think of. However, these laws have severe flaws in them that provide opportunities for companies to get exempted from them or even choose not to follow the laws (Balasubramanian, 1998).

There are serious weaknesses in the Corporate Governance system in India. The administrative system is run in a haphazard manner, implementing and following the law is considered unimportant by some, as illustrated by Ramalinga Raju, Nirav Modi, and Vijay Mallya. Though

there is a legal and judicial system in India, settling any dispute is a tediously long process, and it could take years to finally get a verdict. The members of the board are unaware of any of the wrongdoings of the major executives and employees, as nobody informs them about it. They cannot be easily contacted by employees who want to report these malpractices. The board is also incapable of constantly monitoring whether the company is following all the legalities either. Another flaw in the Corporate Governance system is that many critical decisions like investments, purchase, signing of contracts and industrial relations agreements are not taken by the board (Balasubramanian, 1998).

The Board of Directors has to make sure that all the stakeholders' interests are maintained. The Board must do its job, and is often held accountable by everyone for any failure to maintain the Corporate Governance system. However, in India, it is common to have family-owned businesses. Family members invest in the company, play even small roles in managing it, the chances of family members becoming the CEO, Chairman and board members are high as well. "In such a setup, the board acts more like a rubber stamp, rather than shouldering large responsibilities" (Jan & Sangmi, 2016). In such a situation, expecting employees who are family members, and holding a shareholder, CEO or Chairman who also belongs to the family accountable for their illegal actions, and not expecting it to be covered up is difficult. There is definitely a need for professionalism in such scenarios. Despite having a Corporate Governance system, in family-owned businesses, it is applicable to only nonfamilial employees and family members are exempt from any punishment. However, the case is different in private and public companies.

In Private Limited Companies or Public Companies, the role and responsibility of the Directors or the Board of Directors depend upon the regulations in the Articles of the Company

and the provisions of the Companies Act, 1956. Private Limited Companies or the closely held Companies are actually run by the directors... It may not be the case when it comes to listed Public companies in view of various guidelines, regulations and the provisions of listing agreement entered into with the Stock Exchange. Directors or the Board of Directors has a very big role to play in any Company and they conduct the day-to-day affairs of the company and it may not be possible for the AGM to give directions to the Company from time to time though every company should act as per the provisions of the companies act 1956 and certain decisions can only be taken by the shareholders in the AGM. (Jan & Sangmi, 2016)

Thus, the Board of Directors has limitations, and these limitations are meant to keep them in control, ensuring that they act ethically. However, the Board of Directors has a lot of power. The shareholders cannot seize the powers from these directors. However, they can be controlled and manipulated. Board members may only keep the interest of the major shareholders in mind. The employees and other shareholders cannot prevent the directors from exercising their powers when they work for the major shareholders. Only the board members can remove the Chairman/ CEO / MD from their post if they are inefficient or unethical. It is very difficult to remove other board members, and their unethical actions cannot be controlled. This is another hurdle facing Corporate Governance.

The only way the General Body of the company can fight the board is by amending the Companies Act, which could take a long time, and prevent unethical directors from being re-elected (Jan & Sangmi, 2016). Hence, the duty of enforcing regulations lies in the hands of the Central Bank of India, which is the Reserve Bank of India (RBI).

The review of ethical and professional standards of accountants and auditors is rarely conducted. Although accountability is expected of professionals, it only exists as a concept of Corporate Governance, and not in concrete form. Even if accountants are violating ethical codes, and not meeting the required standards, they are rarely held accountable, because their behaviour is rarely regulated. The corruption, laid-back attitude of employees, regulators, and loopholes in the system has permitted these scams to occur (Balasubramanian 1998).

To curb these scams and improve regulation in the country, The Securities and Exchange Board of India, (SEBI), which is the regulator for the securities market in India realised the necessity for a good Corporate Governance system. Hence, they appointed the Kumar Mangalam Birla Committee, Naresh Chandra Committee, Narayana Murthy Committee, and Uday Kotak Committee to suggest ways to enhance Corporate Governance in India, and tighten any loopholes and prevent leeway from existing in the system.

History of Corporate Governance in India

The first regulatory committee created for improving Corporate Governance in India was formed after the Asian financial crisis. The National Foundation of Corporate Governance (NFCG) states that in 1996, the Confederation of the Indian Industry (CII) decided to take the first institutional initiative in the Indian industry. The objective was to develop a code for Corporate Governance that could be espoused and implemented by all Indian companies irrespective of which sector they belonged to. This was done as the public voiced their anxiety over the protection of their interests as investors. Hence, encouraging transparency about the company and industry's dealings, to develop global standards of transparency by the corporate sector and ultimately ensure that the public develops faith in the company that they are investing in, became top priority (National Foundation for Corporate Governance, 1998).

The second committee that was created for the same purpose, was the Kumar Mangalam Birla committee in 1999. The chairperson of this committee was Kumar Mangalam Birla, who was also a member of the Securities and Exchange Board of India (SEBI). This committee was formed to improve the already existing standards of Corporate Governance. The Kumar Birla Committee drafted a report which has a list of mandatory and non-mandatory recommendations and formulated a code that was applicable to the Indian Corporate Environment. The mandatory recommendations are those which are absolutely needed and can be made enforceable under the amendment of the listing agreement (National Foundation for Corporate Governance, 1998).

The third committee formed for further raising the standard of Corporate Governance in India was the Naresh Chandra committee. This committee was formed after several corporate scandals that took place in the 1990s and 2000s. The Naresh Chandra committee was formed

in 2002 by the Ministry of Finance and Corporate Affairs, to examine various Corporate Governance issues. The committee submitted its report in 2002. Its recommendations encompassed of the financial and non-financial disclosures, the introduction of independent auditing and the board's oversight of management. These recommendations also addressed the following issues - independence of the audit committee, disqualification of audit assignment, Disclosure of Contingent Liabilities, and setting up the Independent Quality Review Board. (Ministry of Corporate Affairs, 2009)

The fourth initiative on Corporate Governance in India was provided in the form of the recommendations by the Narayana Murthy Committee. This committee was set up by SEBI under the chairmanship of Mr. N.R. Narayana Murthy, in order to review Clause 49 of the listing agreement and to suggest any other measures to improve Corporate Governance in India so as to address the evolving market dynamics. Some of the major recommendations of the committee primarily related to strengthening the responsibilities of audit committees, improving the quality of financial disclosure and proceeds from initial public offerings. It also worked towards promoting the whistle-blower policy (Business portal of India, n.d).

The latest committee appointed by Securities and Exchange Board of India, is the Uday Kotak committee under the chairmanship of Uday Kotak, on June 2017 for the purpose of suggesting suitable policy and regulatory changes required in order to enhance the efficacy of Corporate Governance for Indian companies. The committee provided a long list of recommendations, which ensured that the Indian Corporate Governance standards matched the current global Corporate Governance standards. The recommendations includes the minimum number of members that must be in a board, representation of women and independent directors in the board, regular update of credit ratings by companies, the minimum remuneration for board

members and separation of the MD/ CEO post from that of the Chairperson's post (Titus & Mittal, 2018).

As a result of all these recommendations, Clause 49 was amended several times. The most recent amendment is the SEBI (Listing Obligations and Disclosures Requirements) (Sixth Amendment) Regulations, 2018 on November 16, 2018 based on the recommendations of the Uday Kotak Committee. "The plethora of amendments brought by SEBI are aimed at simplifying, streamlining and bringing greater clarity in existing regulations. The amendments will provide a mechanism to protect shareholders' interest by applying proper care, skills and diligence to business decisions" (Bohara, 2019).

Though numerable measures have been taken by the regulatory authorities in India to improve Corporate Governance, these steps have been taken to ape the efforts of the United Kingdom, which had set up the Cadbury Report, and the United States which had the Sarbanes Oxley Act for the same purpose. However, India does not have the same business environment, market structure, and nor does it have the same regulatory measures to achieve the kind of Corporate Governance system that prevails in the West.

The mechanism in market forces in western economies presumes the existence of a deep and liquid market in shares, which is not a reality in India. Besides, stock markets have proven to only be partially successful in ensuring good corporate governance even in developed and mature economies (Kaushik & Dutta, 2012). India still has a long way to go with regard to this aspect. The major challenges to Corporate Governance reforms in India are as follows:

- Constant interfering and influence of major shareholders in the company.

- Lack of incentives – though there is a very expensive Corporate Governance system in place, companies do not get adequate returns for abiding by the system.
- Lack of strong external monitors and third-party regulators.
- Shortage of independent directors on the board.
- Weak regulation of rules (Kaushik & Dutta, 2012).

Thus, in order to find where *else* Corporate Governance falls short, or whether these are the reasons why Corporate Governance has failed, leading to unethical behaviour, this study aims to find how companies can improve or alter it.

The need for this study

The research study stems from the need to understand the current Corporate Governance structure and ethical climate in India. Business Ethics in India is subjective and varies based on each company and sector. There is a lack of a universal or 'National Code of Business Ethics' in the country. As a result, what maybe considered illegal and unethical in one company, maybe legal and ethical in the other. Hence, there is an absence of a uniform Code of Conduct/Ethics.

In addition, there is a loophole in both the Indian Corporate Governance system and Business Ethics. It is worth mulling over the thought, "it's ethical because it's legal" (Collins, 2013). Ethics is more than just the law. As society progresses or regresses, laws change accordingly. Slavery in the 19th century in the United States was legal until the 13th Amendment in the U.S. Constitution was passed in 1865. Slavery is definitely unethical, but it was legal in the United States until the legislation was passed. This is just one example of the many unethical practices that prevailed and still prevail today. This is a fact which the business world cannot deny.

For example: In the United States, Pharmaceutical sales representatives are not allowed to buy doctors expensive meals while convincing them to buy medicines from their respective pharmaceutical company. However, they can buy food which falls under a certain price range and medical representatives are permitted to buy doctors certain types of food. This can obviously be considered a bribe. However, there is no law in the United States which prohibits this. Hence, they are not breaking any law, though it is unethical (HBO, 2015).

Hence, we have to find out whether this is the same case in India. *Are Indian employees taking advantage of the loopholes in the Code of Conduct/Ethics in their organisation? Is the cause of unethical behaviour in India related to the loopholes in the system? What are the other causes of unethical behaviour?*

So, only a coherent understanding of what Indian companies consider ethical and unethical would answer the above questions. For this purpose, we have to assess the current status of Business Ethics, by examining the ethical climate of the various Indian sectors. It is necessary to find out whether they have a Code of Conduct/Ethics, understand their governance structure and find out how Indian organisations implement their company's ethics. The aim of the study is to find out *where* Corporate Governance falls short in implementing Business Ethics, by careful examination in the selected sectors. For this study, IT/Software, Finance, Education, Civic bodies/Public Utilities, Consultancies, Health/Pharmaceuticals and Manufacturing sectors were approached for data collection.

Whether it is the lack of a concrete Code of Conduct/Ethics, lack of comprehension of the Code, lax implementation of punishment from the senior management, or any other identifiable reason, once these causes are clearly identified, Indian companies can reform their errors accordingly. If companies have an ambiguous Code of Conduct/Ethics, without mentioning the punishment or consequences, then the Code can be revised. If there isn't a Code of Conduct/Ethics, then it can be created, listing the do's and don't's, along with the punishment involved for the respective violation. If a code is constructed in such a manner that there are loopholes, then the rules can be tightened. If the reasons for violations are lack of awareness of the code, then the fault lies with senior managers and the HR Department who have failed

to explain the Code of Conduct/Ethics. There is a possibility for companies to reform their unethical behaviour, once they find out where they are going wrong, and what they can do better. The study will also help find the most common types of ethical violations in each sector, and find whether any of the violations are sector - specific.

Another important reason for conducting this study is that there haven't been many studies done on this topic earlier. Besides the Global Ethics Survey, and EMEA Fraud Survey 2017, not many surveys and studies comprehensively examine the cause and prevalence of unethical behaviour. This research study will ultimately profit Indian companies in the long run, especially if India wants to work and dominate the international market.

Ask any international businessman or investor about India and the word 'difficult' is bound to pop up. Seventy years after Independence and more than 25 years after landmark economic reforms, India, despite its many obvious attractions, is seen as a tough place to do business in. But what polite and politically correct international investors will not say openly is that Indians are seen as highly unethical. (Venkataraman, 2018)

Indians are repeat offenders when it comes to breaking the rules and using back channels and loopholes while doing business. One can argue and say that it's a part of Indian business culture to do so. It is a norm that exists, and cannot be changed easily. This statement holds true for both the private and the public sector.

Nearly seven in 10 Indians who had accessed public services — be it schools, hospitals, official documents, utility services, the police or courts — had paid a bribe. In 2017, Transparency International's Corruption Perception Index found India to be the most corrupt country among the 16 Asia - Pacific countries surveyed. India was ranked the most unethical of 13 major economies in the 2016 Global Business Ethics Survey, behind even Brazil and China. Ernst and Young's Asia-Pacific Fraud survey found that unethical practices are rife in India's business community with 78% of Indian respondents surveyed saying that bribery and corrupt practices occur widely, while 57% said that senior management would ignore the unethical behaviour of employees to attain revenue targets. (Venkataraman, 2018)

It is obvious that Indians need to improve their level of Business Ethics. If they keep repeating such behaviour, then nobody will want to work with an Indian company, irrespective of their calibre and profit margins. Even highly ethical companies will bear the brunt of this bad reputation. Nobody will want to collaborate with them, as they fear incurring a loss, and being taken advantage of. Indian companies will immediately feel the impact of being snubbed. They will not be able to grow internationally, and this will eventually have a negative effect on the Indian economy.

Indian companies already have a bad reputation, and taking a step towards implementing Business Ethics will only help them. Instead of working with our other Asian competitors like China and Japan, the Middle East and the West will want to work with India, after noticing the growth and importance placed on Business Ethics.

Foreign investors and companies complain that Indian businessmen don't understand the concept of good faith in negotiations. Legal agreements are routinely flouted — often in cahoots with the authorities or the court system. Creative accounting is a commonplace hazard, as is illegal diversion of profits by promoters. The non-performing loan crisis in India's banks is largely due to bare-faced cheating and fraud by crony capitalists with the connivance of pliant bank executives. The professional ethics of large swathes of our legal and financial communities is compromised. Several investment managers are notorious for arranging funding in return for kickbacks. One of the more visible aspects of doing business in India is getting valuation certificates from chartered accountants for investments to satisfy regulators or lenders. Likewise, in many countries, private lawyers are allowed to certify copies of documents rather than having to go to a government office — something that is unthinkable in India given prevailing ethical standards. (Venkataraman, 2018).

“Indian names feature disproportionately in insider trading scandals on Wall Street and the City in London. Even in Silicon Valley, Indians dealing with outsourced staffing for technology companies are notorious for collecting facilitation fees through their spouses” (Venkataraman, 2018). Unethical behaviour that is potentially unacceptable elsewhere is acceptable in India in some form or the other. India is a growing market, which is competing in the international market. The lack of adherence to universal Code of Conduct/Ethics will prevent Indian companies from merging and working with foreign companies. It will reduce Foreign Direct Investment as well. If Indian companies uphold and follow the Code of Conduct/Ethics set by the global business world, they have the potential to grow and expand at an exponential rate, as ethical companies are trusted more than unethical companies.

These practices are repeated and replicated when Indians work abroad. Indians have already tarnished the country's reputation at the global level by indulging in such malpractices. If India wants to be a global leader in business and trade, then working towards creating an ethical business climate in the country is an absolute necessity. It is necessary to conduct this study in order to discern the attitude of Indian companies regarding Business Ethics, in an actual business scenario. Once the shortcomings are found, they can incorporate the recommendations, so that they can integrate into the global business world.

Review of literature

Illegal acts have always been a part of the business world, and whenever an illegal act of a monumental scale is revealed, the list of several other frauds committed by the organisation is also revealed. There has been a history of fraud in the business world, and the new frauds that have occurred in the recent decades will only add to it. Giroux (2006) added that big frauds occur during recessions and economic depression. Unsurprisingly, high-risk companies get affected the most during these recessions. Hence, they must be prevented at all costs.

Musa (2008) is of the opinion that Business Ethics must be followed by corporations, in its daily operations within the organisation, and on occasion outside the organisational milieu. He mentions that organisations create a Code of Conduct/Ethics to find out whether their code matches that of the global Code of Ethics and also to check whether they can co-operate accordingly to satisfy their individual customers (Ogbari, Oke, Ibukunoluwa, Ajagbe and Ologbo, 2016).

The aim of Business Ethics is to provide everyone in the organisation and the society a set of rules to follow. In the practical sense, it tries to influence the behaviour of employees in an organisation, the formation of policies and how they contribute to the overall benefit of society. Business Ethics has been discussed ever since the surge in the number of corporate and accounting frauds in the past two decades, both in India and the West. The magnitude of these frauds, the level of corruption and unethical behaviour stemming and existing in the highest echelons of some of the largest companies gained worldwide attention. This has led to the public, media, and researchers to sit up and take notice of the activities of large companies, thus focussing on the importance of Business Ethics.

Enron and WorldCom are some of the best examples of the biggest scandals in American corporate history. Though the kinds of fraud committed by these companies are different. Enron mostly had outsiders on its board of directors, was considered one of the top five best boards by Chief Executive Magazine and the company even had a talented audit committee. And yet, Enron was still embroiled in accounting fraud. They produced complex financial statements, misrepresented their earnings on the balance sheet showing favourable performance. Similarly, WorldCom was the largest telecommunication company in the United States, and they misrepresented their line costs as an asset, instead of declaring it as an expense on their balance sheet. They overstated their net profits by \$3.8 billion, and unlike Enron, the internal auditors at WorldCom disclosed the largest American fraud, instead of being careless. Other corporate scandals that occurred during the same time period was also done by large companies. The aftermath of Enron led to several congressional hearings and the downfall of WorldCom which happened six months later, led to the introduction of the Sarbanes-Oxley Act of 2002, in an attempt to bring in financial reform (Giroux, 2006).

In India, three scandals have tarnished the reputation of the nation and finally made companies realise the need to take initiatives to curb unethical behaviour. The first scandal was the Satyam scam of 2008. Satyam's accounting fraud has been titled 'India's Enron', and the country's fourth largest company which was considered India's IT 'crown jewel', with many high-profile clients. The outsourcing firm Satyam Computers was embroiled in one of the nation's biggest corporate scam. The founder Mr. Ramalinga Raju confessed to a Rs. 7800 crore fraud, admitted that he had made up profits for years. And kept this a secret from the company's board, senior management, and managed to fool even the auditors.

Another recent scandal, that shocked India in 2018, is the Nirav Modi scam. Nirav Modi, a celebrity jeweller with star clients in India and abroad, is wanted for an alleged Rs. 13,000-crore bank fraud. He is accused of obtaining loans from abroad, based on fake guarantees from Punjab National Bank (PNB). Similarly, Vijay Mallya has been allegedly accused of money laundering, amounting to nearly Rs. 9000 crores, which he owes to nearly 17 banks.

These above scandals impacted the world of business and management research in two ways. To tackle fraud in a practical manner, corporations have taken a few ethical initiatives and made it a point to mention this in their annual reports. Theoretically speaking, journals and newspaper articles began covering and discussing Business Ethics and Corporate Governance in much greater depth. The number of books being written on both topics have also surged. There are quite a few number of studies over the past few years that have given an overview of the field of Corporate Governance and Business Ethics.

As per Albrecht (1996), poor internal controls open the gates of opportunities for committing frauds. If the internal control system has not delegated proper jobs to employees, has an incompetent audit committee, a flawed accounting system, lacks stringent regulations, has no third-party audits, lacks documents and records, existence of short-cuts or alternate methods to do the job, existence of back channels to provide confidential information and lack of enforcement of the rules are all contributing factors for the rise of unethical behaviour (as cited in Khanna and Arora, 2009). Jeffords (1999) who scrutinised 910 fraudulent cases from 1981 to 1989 to evaluate the specific risk factors mentioned in the Treadway Commission Report, found that nearly 63 % of the 910 fraud cases are classified under the internal control risks (as cited in Khanna and Arora, 2009).

In addition, Smith (1995) has attempted to describe the types of individuals who engage in illegal and unethical activities, as opportunist's who study the flaws in the internal control system and use it to profit financially (as cited in Khanna and Arora, 2009). Similarly, Ziegenfuss (1996) outlined the most common types of fraud in state and local government level - misappropriation of assets, theft, false representation and false invoice (Bhasin, 2015).

Bhasin (2007) has scrutinised the causes for check frauds, large-scale frauds in Indian banks, and how the expertise of internal auditors can be utilised to detect and prevent frauds in banks. Auditors must be made aware of the common types of frauds and can take steps to tackle them. Another challenge that banks face today is that the rise of new technology has led to the increase of cybercrime and new types of fraud which has led to security risks for bank account holders (as cited in Bhasin, 2015).

A failing Corporate Governance system leads to the rise of ethical issues. The kind of initiatives taken to promote Business Ethics depends on the governance system in the firm, and its attitude towards the very concept of Business Ethics (Cowton, 2011). However, not many studies have been conducted in India with regard to this aspect, with the inclusion of the major sectors in India.

But the 11th Global Fraud Survey conducted between 2009 – 2010, made an attempt to focus on India and conducted a survey by comparing Brazil, Russia, India and China, when it comes to the attitude of respondents to dealing with fraud, bribery and corruption risks, the survey reveals some interesting results.

About 96% of Indian respondents stated that they had effective coordination between compliance, internal audit and legal. Approximately 94 % of Indian respondents have confidence in internal audit. Nearly, 74% of Indian respondents confirmed that there was an availability of hotlines for whistle-blowers. Almost 64% of Indian respondents have maintained a fraud database. In addition, around 66% of Indian respondents have embedded processes to promote adherence to international anti-corruption legislation. However, India could do better with regard to due diligence procedures. Roughly 48% of Indian respondents, very or fairly frequently conducts pre-acquisition due diligence. About 41% of Indian respondents stated that they always conduct post-acquisition due diligence. (Ernst & Young, 2011)

It is necessary to find out why despite all these measures in place, India is still ranked as one of the most unethical countries in Asia. The results of the current study must compare and contrast the results of that of Ernst and Young, as not many researchers have engaged with the various industries in India, to do so. Also, the results of the study may not be relevant to the current situation. There has also been a study by Mahajan and Mahajan (2016) to assess the incidence of Code of Ethics in Indian businesses, studying the managerial perceptions - whether managers believe that ethics can boost ethical learning among employees, whether the code influences employee behaviour, to find out causes for the compliance and non-compliance of codes with managerial input. However, this study did not focus on how Corporate Governance can enhance its role in curbing unethical behaviour in India.

All the studies that have been conducted are from the West and do not pertain specifically to India. The studies that do pertain to India summarise the *current* status of Corporate Governance and Business Ethics, and cited the causes for unethical behaviour, but have not

aimed to find out *whether and how* the Corporate Governance system can play a role in decreasing unethical behaviour in the formal business sector.

In conclusion, there is a lack of research papers that have engaged with only Indian companies or Indian branches of foreign companies to find out how Indian companies, private or government-run can improve their Corporate Governance system. No study has been conducted to find out where the Corporate Governance system in India has fallen short, or how we can create an iron-clad Corporate Governance system, where there are no loopholes for employees or outsiders to exploit and get away with unethical behaviour. Neither have studies been conducted to find out whether companies regulate their ethics by themselves (self – regulation), or regulate along with the government (co – regulation) or regulated solely by the government of the country.

Unfortunately, no study has been conducted to examine the reasons for unethical behaviour and neither has there been a careful examination of whether certain unethical behaviour is sector- specific, especially pertaining to the IT/Software, Manufacturing, Finance, Consultancies, Education, Public utilities/Government sector and Health/ Pharmaceutical sector in a developing business hub like India. Hence, the present study seeks to fill this gap and contribute to the existing literature.

Objectives

- 1) To find out the cause for unethical behaviour in the formal, economic sector in India.
- 2) To find out whether any particular ethical violations are specific to a certain sector and try to analyse the same.
- 3) To analyse the interplay between Corporate Governance and ethical behaviour.
- 4) To come up with a possible set of recommendations to curb unethical behaviour.

Methodology

For this research project, the survey method was used for data collection. The questionnaire consisted of 27 questions, out of which 23 questions are close-ended and four questions are open-ended. The necessary data was obtained by contacting Chief Ethics Officers, Compliance Officers, Human Resources Officers, regular employees and members of the Senior Management of both *large and medium-sized companies and start-ups*. The companies that were approached were both Indian companies and Indian branches of foreign companies. The employees were contacted via email, telephone and text messages. The data was collected via email and in person. Nearly 57 companies were approached to gather this data and only 23 companies responded.

The questionnaire consists of six sections. These six sections cover some of the important areas of Business Ethics and Corporate Governance. The exact questionnaire is enclosed as Annexure I.

Section - A consists of four questions on the Need for Ethics. This section aims to understand the following:

- 1) Find the perception of companies on the need for ethics.
- 2) Find out what the companies believe is being ethical in a business environment.
- 3) Find out why companies think ethics is important in the business world.
- 4) Find out how companies know they are making the right decision and determine whether their decisions are not just based on the company's governance system or the Code of Conduct/Ethics.

Section – B consists of questions on the ethical climate of the respective organisations. This section has five questions and aims to gather data on the following topics:

- 1) Finding out the current level of ethics in the company based on a Likert scale, where one is the lowest and seven is the highest. This question aims to comprehend whether the sample companies have a separate Code of Conduct and Code of Ethics and whether they do anything beyond referring to the code for enforcing ethical behaviour.
- 2) Finding out how companies determine whether employees are and will remain ethical. Ex: By administering personality tests/ ethics tests during recruitment, making them undergo ethical training programmes.
- 3) Finding out the major ethical violations that the companies have faced, along with the number of employees who have violated the Code of Conduct/Ethics.
- 4) Reasons for the violation of the Code of Conduct/Ethics.
- 5) To find out whether the company has undergone an ethical audit by an external agency, and if they had, compare the results of the audit to the current ethical state of the company, to see if there is any improvement or not.

Section - C covers the implementation of ethics. This section consists of seven questions. This section helps get information on:

- 1) Finding out how often companies review their Code of Conduct/Ethics.
- 2) The measures employed by respondent companies to ensure that their employees are aware of the Code of Conduct, and how the companies prevent its violation.
- 3) Whether the sample companies sensitise their employees to the local culture of the company if they are non-locals.
- 4) How companies appraise their employees' ethical behaviour.

- 5) Whether they publicise the violation of ethics or keep it a secret to be mindful of the employee's reputation.

Section – D covers the whistle-blower policy. This section comprises of three questions. This section will obtain information on:

- 1) Whether the company has a whistle-blower policy or not.
- 2) The number of times the whistle-blower policy has been invoked on an average in each company.
- 3) Measures companies have taken to protect whistle-blowers within their company.

Section - E covers the Code of Ethics. This section consists of two questions and is optional. Only those companies that have a separate Code of Ethics, different from their Code of Conduct were asked to answer this section.

- 1) Find out how companies draft their Code of Ethics.
- 2) Find out why companies think that a separate Code of Ethics benefits their organisation.

Section – F covers Governance structure. This section consists of six questions. This particular section helps get input on:

- 1) The individual responsible for handling business ethics in the 23 companies, and to check whether they have a Chief Ethics Officer or not.
- 2) The number of companies that have/ do not have an Ethics Committee/Board, its members and its head.
- 3) Why companies believe that their Code of Ethics is effective.
- 4) How companies benefit from a Code of Ethics/Conduct.

- 5) Whether the sample companies think the Indian government can do better in regulating Business Ethics and how they can improve.
- 6) How ethical violations are handled in these organisations.

With the help of this questionnaire, we will be able to determine where the 23 sample companies fall short in implementing ethics, and what role Corporate Governance can play in the reducing the violation of Business Ethics. This questionnaire will also help determine whether certain unethical behaviour is sector - specific, and its causal factors. There are also suggestions on how to curb unethical behaviour based on the results.

Observation/ Summary of the findings

The 26 completed questionnaires, (obtained from 23 companies. Two companies have sent multiple responses) were analysed and various observations have been made. Companies in India, irrespective of their sector, have taken initiatives to curb unethical behaviour. Companies from the respective sectors in question use Business Ethics in their operations, although their scale of implementing Business Ethics is different, based on each organisation. Companies stated that they have a Code of Conduct/Ethics and take action against violators, and almost all the companies have an articulated policy against sexual harassment. Interestingly, the majority of the companies have a clause which states that if employees are aware of the violation, and they do not report it, they are also violating the Code. In an attempt to reduce the violation of the Code of Conduct/Ethics, companies brief both the employees and external contractors about it before or during the signing of the contract. They also conduct regular ethics training programme, with the help of senior management.

Majority of the respondents stated that they review the code whenever they deem it necessary. Companies face anywhere between 1 to 500 violations on an average and the most common reason given for ethical violations are: 'ignorance of the rules in the Code of Conduct' and 'forgetting the rules of the company'. Majority of the respondents mentioned that their company *does not* have a whistle-blower policy. Most of the companies designate Human Resource Officers to handle ethical violations, and those who are in charge of ethics in companies are available at all times, including holidays. Almost 12 companies have an Ethics Board/ Committee. After careful research, it has been found that there are **no particular violations** that are specific to any sector.

Findings and analysis

The detailed responses of the 26 respondents to the questionnaire are found section-wise below. In an attempt to understand the perception of the formal economic sector about Business Ethics, a questionnaire was administered on Human Resource Managers, Chief Ethics Officers, Compliance Officers, regular employees, and Consultants. The questionnaire consisted of six sections, with a total of 27 questions. All the 27 questions in the questionnaire are represented either textually, graphically or in both forms.

Section A covers 'The need for Business Ethics'. This section has four questions.

Section B comprising of five questions covers the 'Ethical climate of your organisation'.

Section C having seven questions covers the 'Implementation of Ethics'.

Section D covers the 'Whistle-blower policy'. This section contains three questions.

Section E covers the 'Code of Ethics'. This section has only two questions.

Section F consists of six questions that covers the 'Governance structure' of the organisation.

Around 57 companies were approached to obtain responses. In total, 26 completed questionnaires were received. The findings and analysis contain a section-wise analysis of each of the responses, with a graphical representation of the results for each question, along with a brief summary. Some questions in the questionnaire were not answered, which has been mentioned either *textually or represented graphically*. The graphs that are self-explanatory do

not have a textual description. The 26 responses were received from the IT/Software, Health/Pharmaceuticals, Consultancies, Education, Finance, Manufacturing and Public Utilities/Government Sector.

SECTION – A – NEED FOR ETHICS

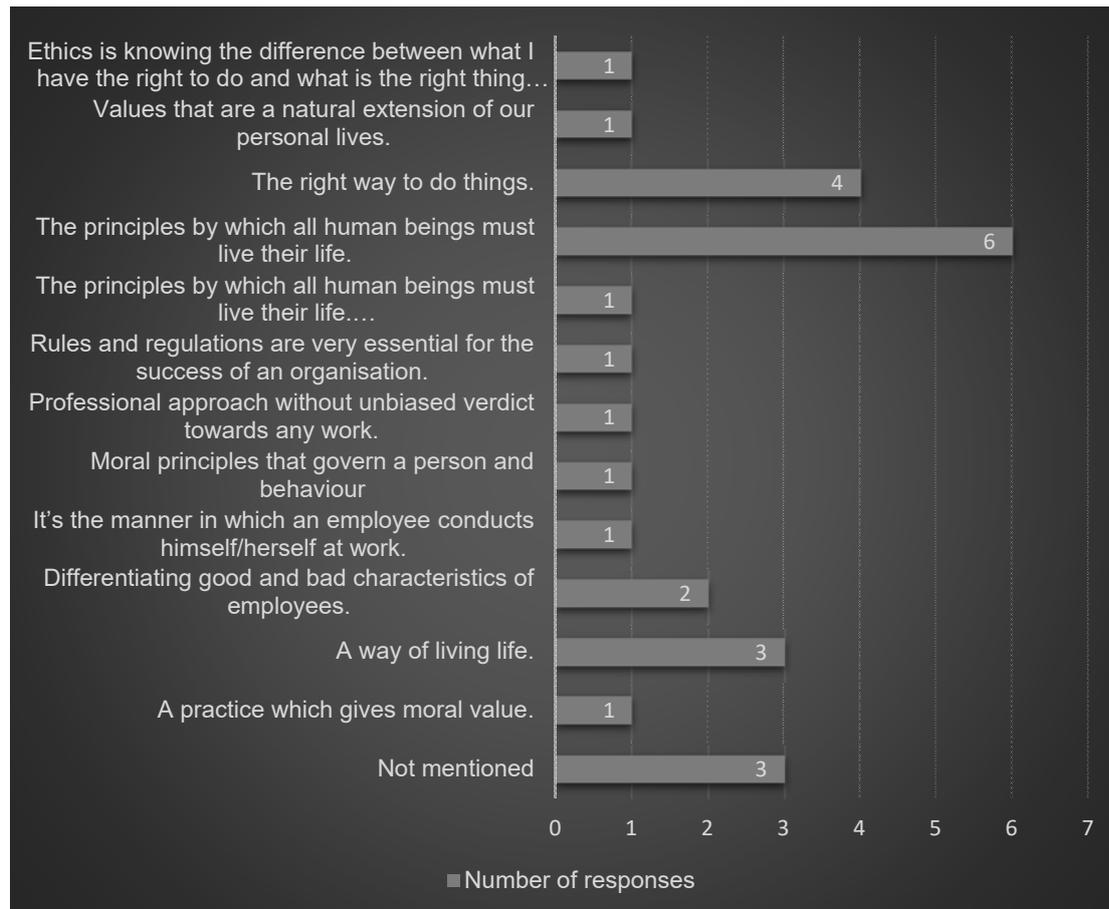


Figure 1. The perception of Indian companies regarding ethics

Out of all the respondents, **six** companies believed that ethics are *the principles by which all human beings must live their life*. There are **four** companies which are under the impression that ethics is *the right way to do things*. **Three** companies believe that ethics is *a way of living life*. **One** company claimed that ethics is *a practice which gives moral value*. **Two** companies are of the opinion that *ethics is differentiating good and bad characteristics of employees*. As

per the opinion of **another** respondent, *ethics is the manner in which an employee conducts himself/herself at work*. In addition, **one** respondent mentioned that *ethics are moral principles that govern a person and their behaviour*. **Another** respondent believes that *ethics are a professional approach without unbiased verdict towards any work*. According to **one** respondent, *ethics are the rules and regulations that are very essential for the success of an organisation*. **One** respondent mentioned that their company believes that *ethics are the principles by which all human beings must live their life and the right way to do things*. **One** respondent states that *ethics are values that are a natural extension of our personal lives*. **Another** respondent is of the view that *ethics is knowing the difference between what I have the right to do and what is the right thing to do. It is also the difference between right and wrong and just and unjust*. Only **three** companies have not answered this question.

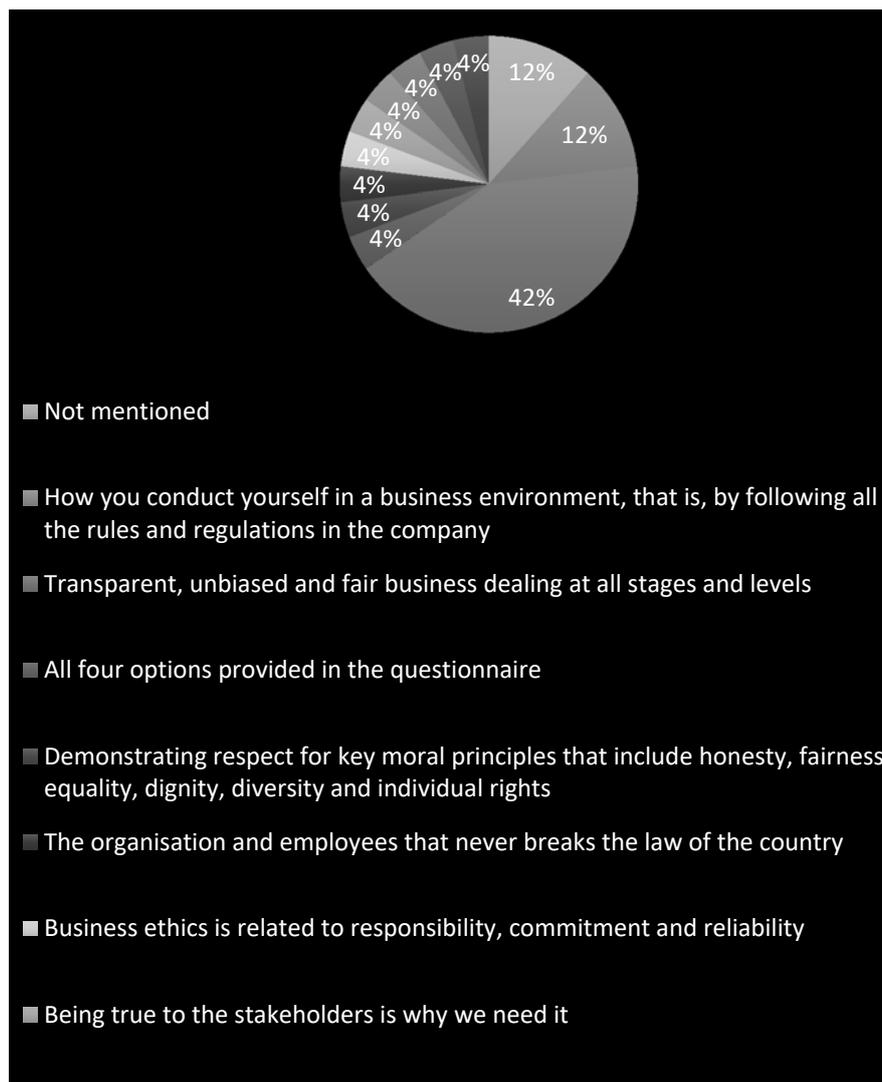


Figure 2. The perception of Indian companies on what they consider ethical behaviour is in a business environment

Companies were asked what they believe is ethical behaviour is in the business world. About **11** (42 %) respondents stated that *transparent, unbiased and fair business dealing at all stages and levels*. **Three** (12 %) respondents mentioned *how you conduct yourself in a business environment, that is, by following all the rules and regulations in the company*. **One** (four %) respondent chose four options, *how you conduct yourself in a business environment, that is, by following all the rules and regulations in the company; transparent, unbiased and fair business dealing at all stages and levels; working in an organisation by using the Code of Conduct as a reference for individual behaviour and the organisation and employees that never breaks the*

law of the country. Another (four %) respondent stated that demonstrating respect for key moral principles that include honesty, fairness, equality, dignity, diversity and individual rights. One (four %) respondent stated that the organisation and employees that never breaks the law of the country. One (four %) respondent noted that Business Ethics is related to responsibility, commitment and reliability. Another (four %) respondent is of the view that being true to the stakeholders is why we need it. According to another (four %) respondent, I think ethical behaviour in business is that the employees think about the work and how they take things, how they behave with others, how deal with the coordinates and customers. One (four %) respondent mentioned that in the business world, companies have a set of rules and policies enshrined in a written Code of Conduct that employees are expected to uphold in their work and in dealings with customers, suppliers, distributors and others. Upholding these rules, always being in the good side of law, treating one another with respect and acting fairly in the marketplace are some examples of ethical behaviour. Another (four %) respondent thinks that ethical behaviour of the organisation gives the outlook of the organisation. One (four %) respondent is of the opinion that ethical behaviour in a business environment needs to be guided by the Code of Conduct which aligns with our personal moral values. The actions of the company which can positively contribute to the eco-system is important to consider. The trust of all stakeholders should spur the company's actions. Abiding by the law of the land and ensuring a healthy contribution to the state by way of good practices, boosts the morale of all stakeholders. Three (12 %) respondents did not answer this question.



Figure 3. The perception of Indian companies on why ethics is important in the business world

In order to comprehend the respondents' opinion on Business Ethics, the respondents were asked why they think ethics is important in the business world. About **four** respondents stated that Business Ethics incorporates more *transparency and conducive environment at work, that's why it is important*. Nearly **eight** respondents mentioned that *ethics helps build trust among all stakeholders*. Approximately **four** respondents are of the opinion that *Business Ethics brings in discipline in the business world*. **Another** company believed that as the company's *ethical standards differentiates them in the marketplace, adds to their brand value and inspires employees and doing business in an ethical way ensures the long-term sustainability of the company*. According to **one respondent**, *ethics is important because in the business field there must be co-operation between each other - the employee, employers, and customers. Each one will have their own views but everyone must discuss it and then make a clear decision*. **Another** respondent stated that ethics is important simply *for the growth of the organisation*. **One** respondent is of the view that *in the ever-evolving age of fast change, a set of guidelines (value based) help clarify and manage doubts that might arise. It also helps*

stabilise and keep the morale of all in an ecosystem. Working with a morally upright company helps build a tribe of ‘good people’, the sense of belonging and positivity contributes to the health of the people involved. Another respondent chose three options: It incorporates more transparency and a conducive environment at work; Business Ethics brings in discipline in the business world and it helps build trust among all stakeholders. Another company noted that Ethics inbuilds trust and transparency among all the stakeholders and it is vital for the sustainable growth of the business. One respondent believed that it builds up true professionalism. Three companies did not answer the question.

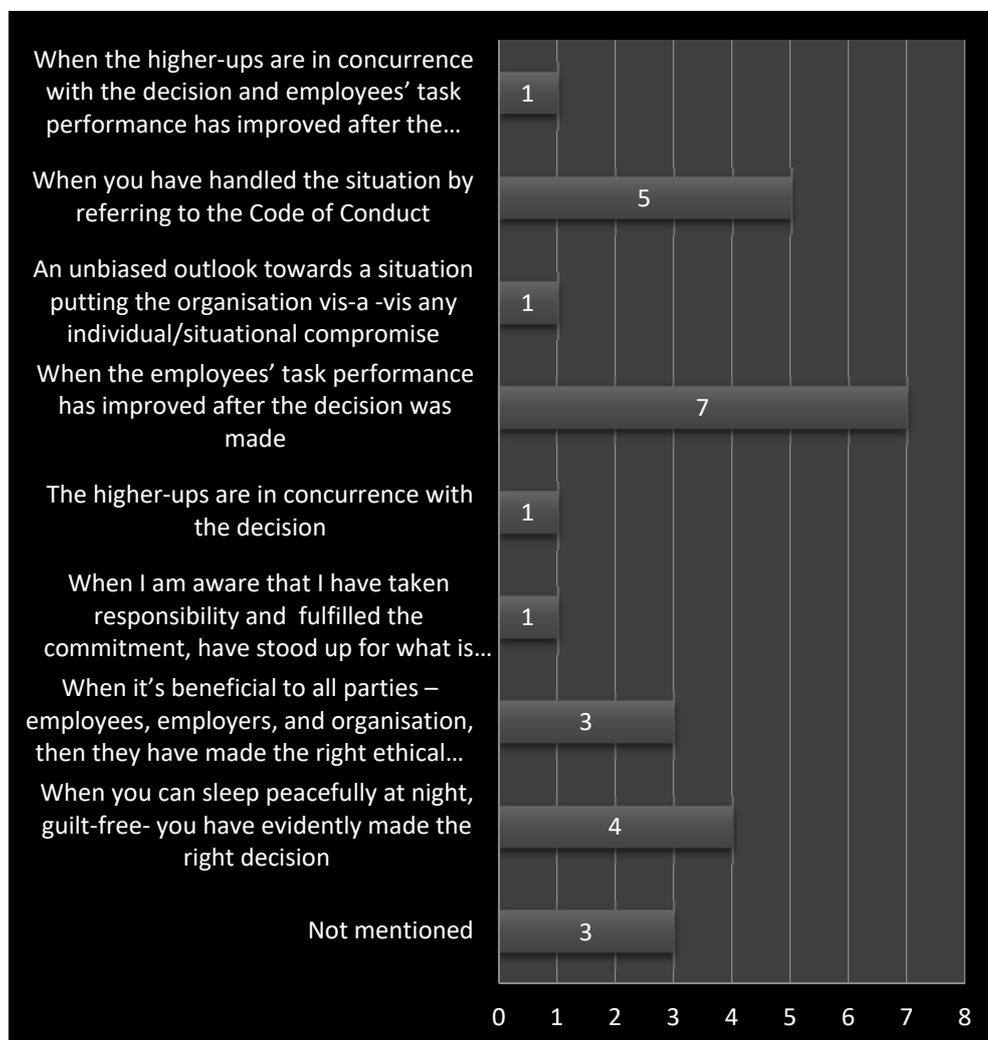


Figure 4. The bar graph represents how Indian companies know that they have made the right ethical decision

Ethical decision-making is one of the biggest dilemmas organisations face. With the aim of finding out the process of ethical decision-making and the desired outcome of these decisions, the respondents were asked how they were sure that they have made the right ethical decision. About **five** companies insisted that *when you have handled the situation by referring to the Code of Conduct/Ethics*, that's when you are sure that you have made the right decision. According to **four** other respondents, *when you can sleep peacefully at night, guilt-free- you have evidently made the right decision*. About **three** respondents maintained that *when it's beneficial to all parties – employees, employers, and organisation, then they have made the right ethical decision*. **One** respondent insisted that *when the higher-ups are in concurrence with the decision and employees' task performance has improved after the decision was made*. **One** respondent stated that *when the higher-ups are in concurrence with the decision, they know they have made a correct decision*. **Seven** respondents claimed that *when the employees' task performance has improved after the decision was made*. As per the perception of **another** respondent, *an unbiased outlook towards a situation putting the organisation vis-a-vis any individual/situational compromise is how you know that you made the accurate decision*. **One** respondent stated that *when I am aware that I have taken responsibility and fulfilled the commitment, have stood up for what is right, strived for fairness*. **Three** respondents have not answered the question.

SECTION B – ETHICAL CLIMATE IN YOUR ORGANISATION

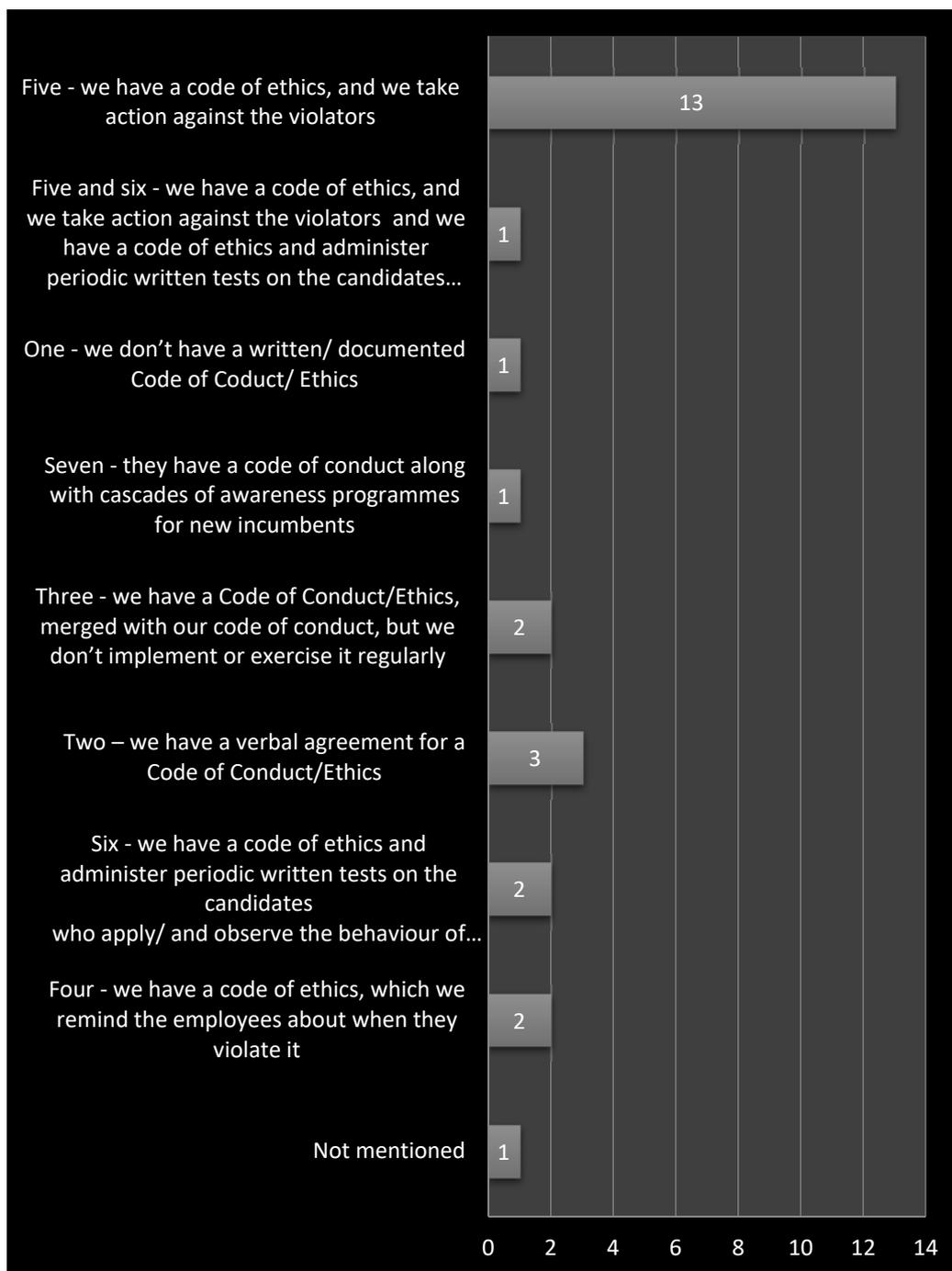


Figure 5. The figure represents the level of ethics that the sample companies believe exist in their organisation

The respondents were asked to rate the level of ethics that exists in their respective company.

They were asked to choose from a Likert scale ranging from one to seven, where:

Out of all the respondents, **13** of them rated their company 'Five' on this scale, stating that *they have a Code of Conduct/Ethics and they take action against violators*. Approximately, **two** companies rated their company 'Four' on the scale, have a Code of Ethics, which we remind the employees about when they violate it. About **two** companies chose 'Six' - they have a Code of Conduct/Ethics and administer periodic written tests on the candidates who apply/ and observe the behaviour of the current employees. Nearly **three** companies have chosen to rate their organisation with 'Two - we have a verbal agreement for a Code of Conduct/Ethics'. **Two** companies chose 'Three – we have a Code of Ethics, merged with our Code of Conduct, but we don't implement or exercise it regularly'. **One** company rated themselves: 'Seven - they have a Code of Conduct along with cascades of awareness programmes for new incumbents'. **Another** company chose both Five and Six – *they have a Code of Conduct/Ethics and they take action against violators and they have a Code of Conduct/Ethics and administer periodic written tests on the candidates who apply/ and observe the behaviour of the current employees*. Whilst only **one** company rated their organisation with the lowest number in the rating scale – One. *They do not have a written/ documented Code of Conduct/Ethics*. Lastly, **one** respondent has chosen *not to rate their respective company*.

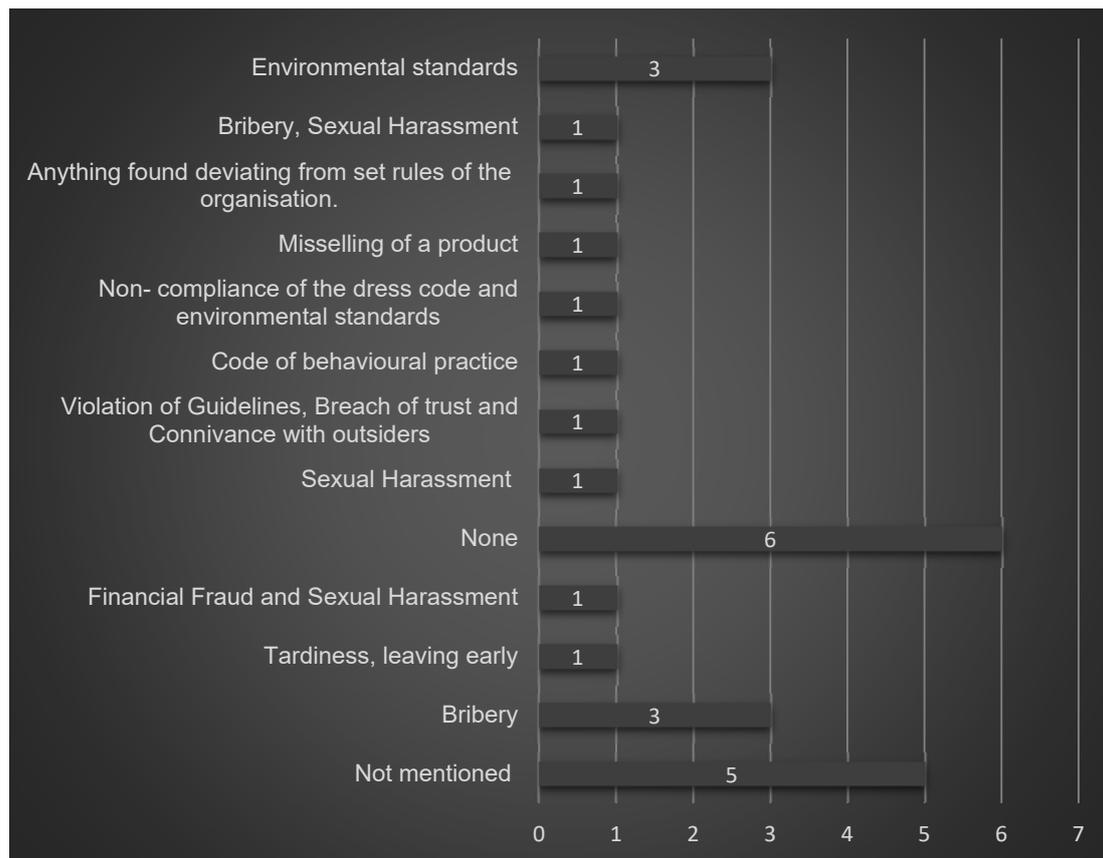


Figure 6. The list of common ethical violations faced by Indian companies

The respondents were asked to mention the type of violation their organisation faces on an average. About **three** respondents stated the employees have ‘*violated environmental standards*’. **One** company stated that the major violation they faced was *sexual harassment and bribery*. **One** company stated that *major violations are anything found deviating from set rules of the organisation*. *Non-compliance of the dress code and violation of environmental standards* were two violations **one** company faced. **One** company emphasised that employees often ‘*violated the code of behavioural practice*’. **One** company listed: ‘*Violation of set guidelines, breach of trust and connivance with outsiders*’, whilst **another** respondent stated that *misselling of a product* is a common violation in their company. *Sexual harassment* is a violation **one** company often faces. Another **three** companies mentioned that ‘*bribery*’ was the most common violation they faced. **One** respondent averred that employees would be *tardy to work and leave early*. **One** company had two frequent violations – ‘*Financial fraud*’ and

'sexual harassment'. Nearly **six** companies mentioned that *none of the options pertained to their company*. Approximately **five** companies *did not furnish the details for this question*.



Figure 7. The number of code violations faced in Indian companies on an average

The respondents were then asked to provide the number of violations they faced on an average. **One** company stated that they have 500 violations. **One** company mentioned they had 10 to 15 violations, while **another** company had 12 to 15. **One** company has 1 to 5 violations on an average. Approximately, **seven** companies had 1 to 10 violations on an average. Almost **seven** organisations *do not keep count of their violations*. **Two** companies claimed that they *haven't faced any violations till date*. **Six** companies *have not mentioned the number*.

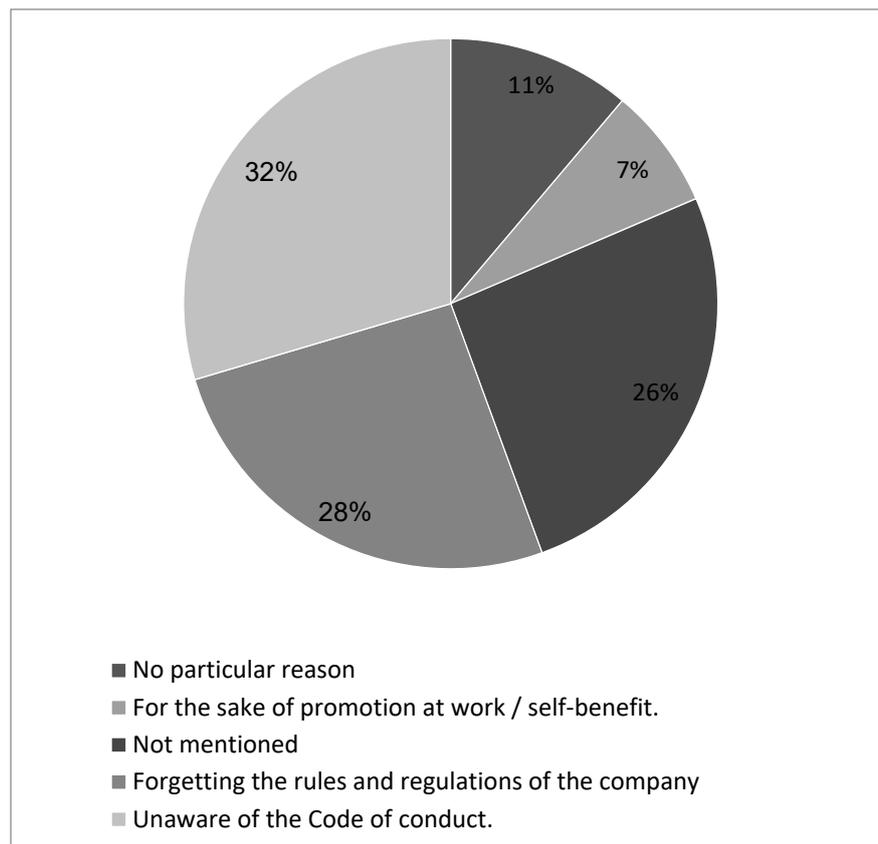


Figure 8. The reasons employees provide for violating the Code of Conduct/Ethics

In attempt to comprehend the reason for ethical violations, the respondents were asked to provide the most cited reason for violating the Code of Conduct/Ethics by employees. **Eight** (32 %) companies state that the most frequent response they received from perpetrators was that they were ‘*unaware of the rules in the Code of Conduct/Ethics*’. Almost **seven** (28 %) other companies mentioned that employees often claimed that they had ‘*forgotten the rules of the company*’. **Three** (11 %) companies cited that there was *no reason in particular for the violation*. Only **two** (seven %) companies mentioned that the most cited reason was *for the sake of promotion at work / self-benefit*. **Six** (26 %) companies *did not mention* the reason they obtained from violators.



Figure 9. The figure represents the number of Indian companies that have and have not undergone an ethical audit

SECTION – C - IMPLEMENTATION OF ETHICS

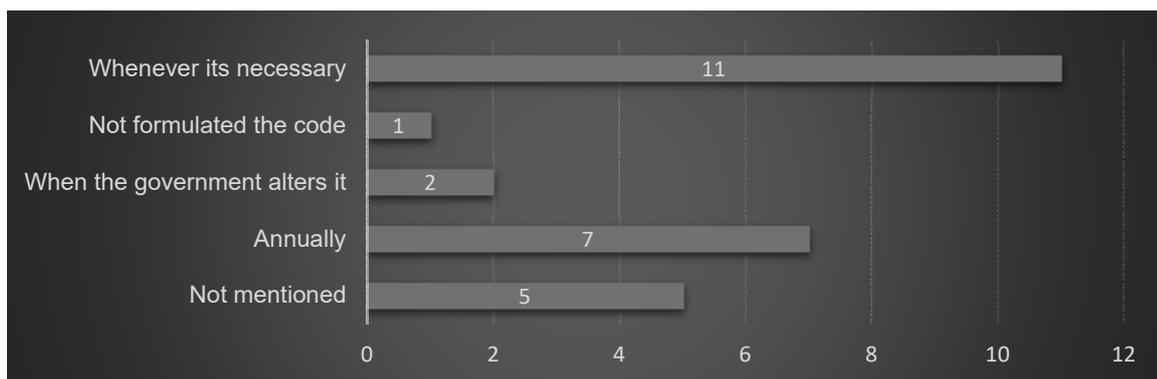


Figure 10. The figure represents how frequently Indian companies review their Code of Conduct/Ethics

The respondents were asked about how often their company reviews their Code of Conduct/Ethics. Nearly **eleven** companies stated that *they review the code whenever they deem it is necessary*. About **seven** companies mentioned that they review their Code of Conduct/Ethics *annually*. **Two** companies mentioned *that the government has devised the Code, and they cannot revise/ review it until the government alters or reviews it*. **One** company

stated that *they haven't formulated a Code of Conduct/Ethics, so the reviewing process hadn't begun*. There are **five** companies that *haven't mentioned how often they review their code*.

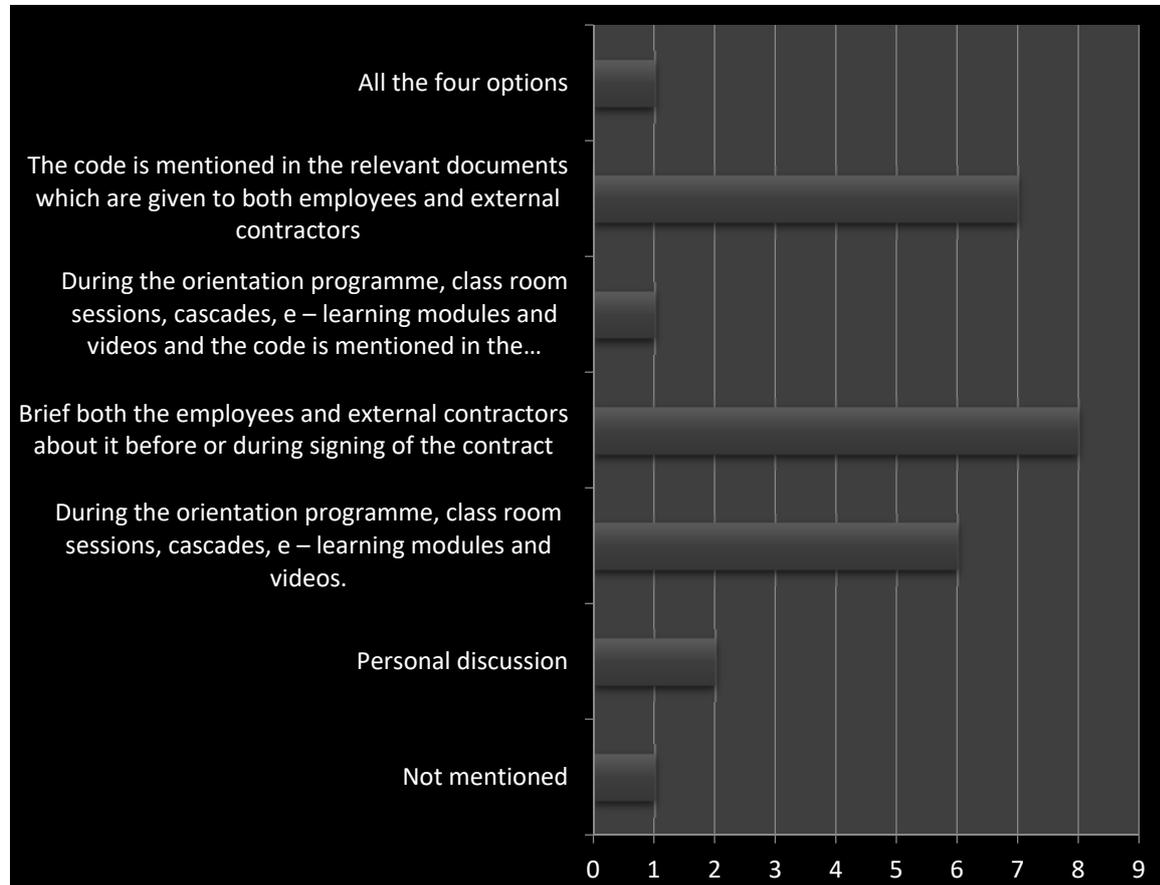


Figure 11. The figure represents the methods Indian companies employ to ensure that their employees and external contractors are aware of the Code of Conduct/Ethics

Ensuring that employees and external contractors are well-aware of the Code of Conduct/Ethics will reduce the chances of its violation. The respondents were questioned as to what method they implement to ascertain that their employees and external contractors become aware of the Code. **One** respondent stated that their company *uses all the four options provided for the question*. That is, *the Code is mentioned in the relevant documents which are given to both employees and external contractors, they brief both the employees and external contractors*

about it before or during signing of the contract, they are made aware of the code during orientation programme, classroom sessions, cascades, e-learning modules and videos and finally they have also mentioned it on their website for reference. **Two** companies mentioned that employees/external contractors are well aware of the code by *personal discussion*. **Six** companies make their employees aware of the code *during the orientation programme, classroom sessions, cascades, e-learning modules and videos*. These respondents *did not mention* how the external contractors are made aware of the code. Around **seven** companies stated that *the code is mentioned in the relevant documents which are given to both employees and external contractors*. **One** company chose two options: *During the orientation programme, classroom sessions, cascades, e-learning modules and videos and the code is mentioned in the relevant documents which are given to both employees and external contractors*. Around **eight** respondents mentioned that they *brief both the employees and external contractors about it before or during the signing of the contract*. Only **one** company has *not answered* the question.

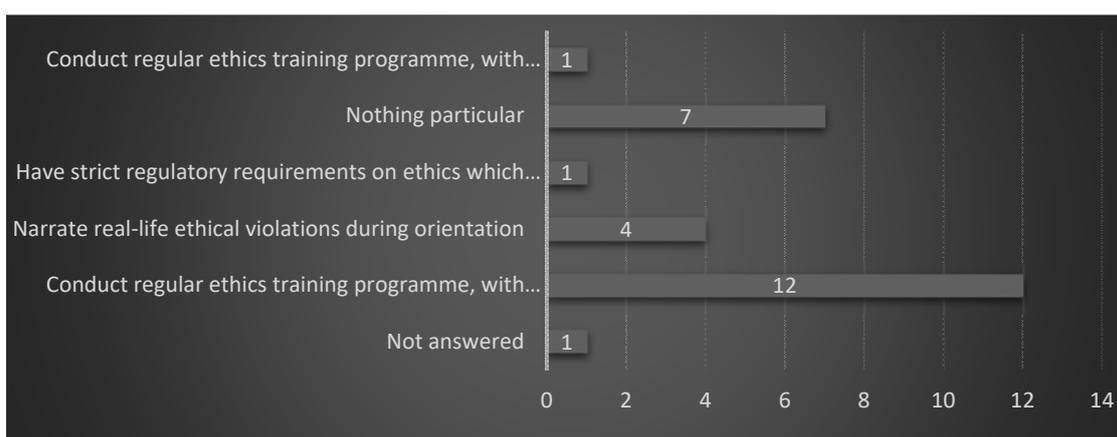


Figure 12. The figure represents the measures companies have taken to prevent the violation of the Code of Conduct/Ethics

The respondents were asked about the various steps they took to prevent the violation of the Code. About **12** companies stated that *they conducted regular ethics training programme, with the help of senior management*. **Four** companies mentioned that they *narrate real-life ethical violations and their consequences during orientation*. **One** company follows *both the above options*. **One** company *has strict regulatory requirements on ethics, which employees must follow*. Nearly **seven** more companies stated that they do *nothing in particular* to ‘prevent’ the violation of ethics, besides making the employees aware of the Code as stated in the previous graph. **One** company *did not answer* the question.

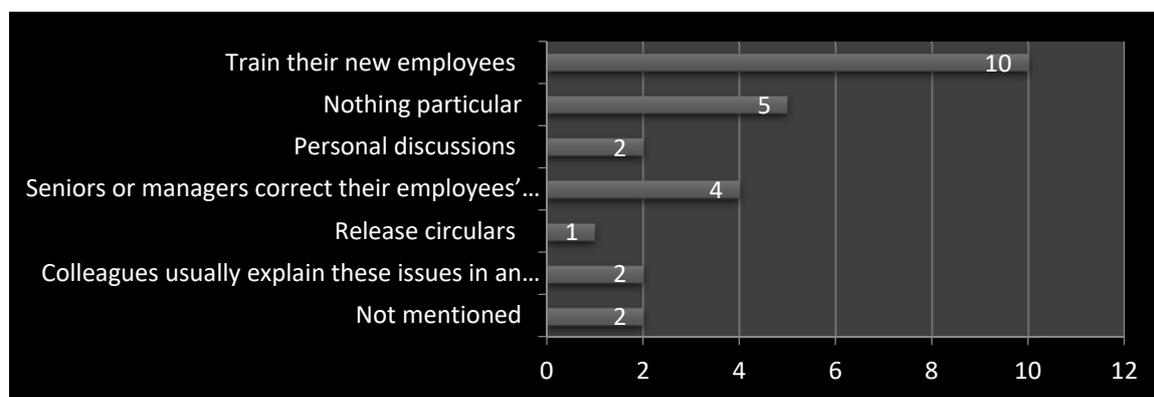


Figure 13. The figure displays how companies ensure that their employees are familiar with the local business culture

Each country, state, and city have its own local business culture. These are unspoken, invisible norms and are not written on paper, and each local business culture is different, hence even the Business Ethics of each local business culture is different. They must be learnt through observation, inference and in some cases, training. So, the respondents were asked what they did to ensure that their employees were aware of the local business culture. Approximately **10** companies *train their new employees with regard to behaviour in the local business environment, explaining what is acceptable and what is not*. **Five** companies *do not do anything*

particular with regard to this matter. **Four** companies have their *seniors or managers correct their employees' behaviour and explain the local culture*. **Two** companies have *personal discussions* with employees with regard to local business culture. About **two** other companies stated that *colleagues usually explain these issues in an informal manner*. Only **one** company releases circulars with regard to what is expected of them. Only **two** companies have not responded to this question.



Figure 14. The figure shows how Indian companies appraise the ethical behaviour of existing employees

The respondents were asked how companies assess the ethical conduct of their employees. Approximately **six** companies have *senior managers observe ethical conduct and address them during EAP programmes*. About **six** companies have *created an ethics scale, rated their behaviour accordingly and mention it in the performance appraisal*. Roughly **five** companies have not formulated a method to assess the ethical conduct of their employees. Almost **five** companies make their *employees undergo training programmes*. Nearly **three** companies administer ethical tests on their employees. Only **one** company stated that they *brief employees during induction on the Code of Conduct which is part of service rules*. The HR also sends all

the clauses in the Code of Conduct/Ethics through email. There is no ambiguity with regard to company rules. The HR department has a record that they have informed the new employees about the Code of Conduct/Ethics.

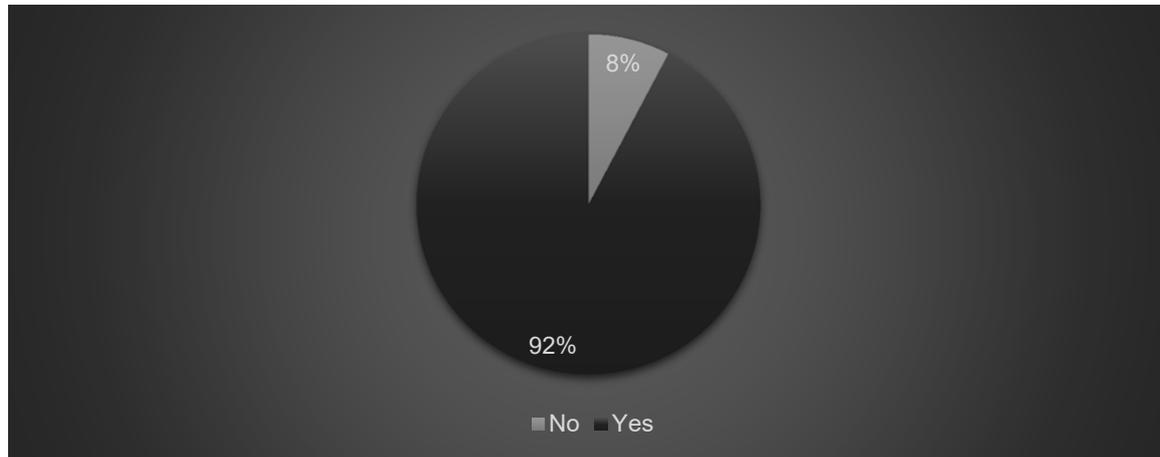


Figure 15. The graph displays the percentage of Indian companies that have an articulated policy against sexual harassment

Sexual harassment is an ethical violation that has been increasing in the past few decades, as more women are joining the workforce. This is a concerning issue and the respondents were asked whether their company has an articulated policy against sexual harassment. Approximately, **24** companies *have* an articulated policy against sexual harassment. Only **two** companies *do not have* an articulated policy against sexual harassment. Out of these two companies, one company reiterates the consequences of sexual harassment, during their meetings.

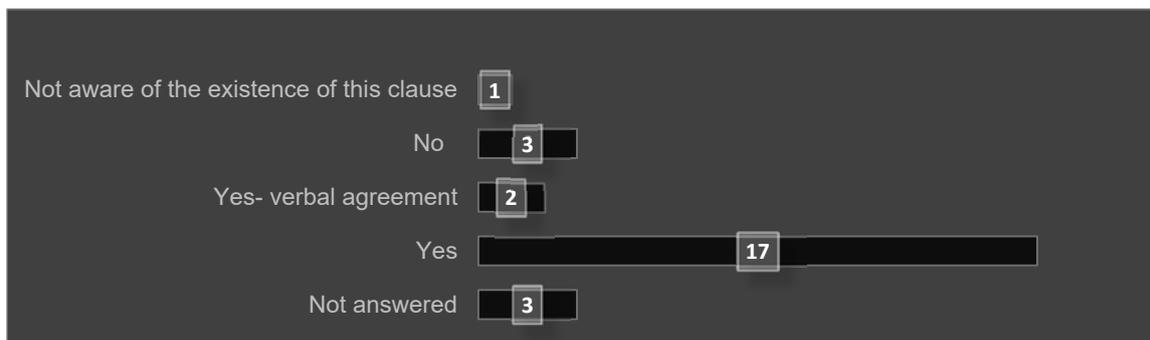


Figure 16. The bar graph shows the number of Indian companies that have the clause which states that not reporting a violation of the Code of Conduct/Ethics is also a violation

One of the ways unethical behaviour comes to light is through reporting. In order to get employees to report violations, companies add a clause in their Code which mentions that if they are aware of the violation, and they do not report it, they are also violating the code, as they are complicit. Hence, the respondents were asked about this clause. About **17** companies affirmed that *they have* this clause in their Code of Conduct/Ethics. **Two** companies stated that *they have this clause, but not in writing*. It is more of a verbal agreement. Nearly **three** respondents *do not have this clause*. **Three** companies have *not responded* to this question. Only **one** respondent stated that they *did not know if such a clause exists*.

SECTION D–WHISTLE-BLOWER POLICY

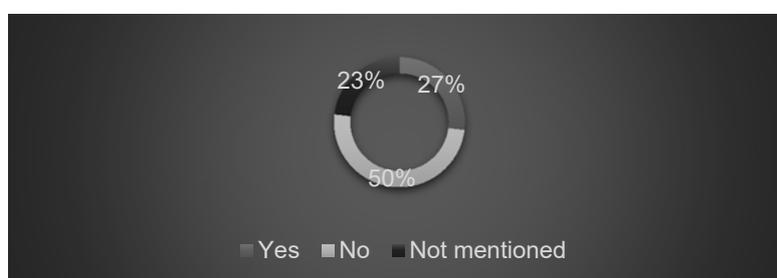


Figure 17. The pie-chart shows whether Indian companies have a whistle-blower policy or

not

One of the ways unethical behaviour is made known is through whistle-blowers. If unethical behaviour has to cease, then it has to be reported to the right party. Hence, there needs to be an established mechanism for reporting for whistle-blowers. The respondents were asked whether their respective company has a whistle-blower policy. Nearly **seven** (27 %) respondents mentioned that their company *has* a whistle-blower policy. Approximately, **13** (50 %) respondents mentioned that their company *does not* have a whistle-blower policy. About **six** (23 %) respondents have *not mentioned* whether they have a whistle-blower policy in their company.



Figure 18. The bar graph represents the number of times the whistle-blower policy is invoked on an average in Indian companies

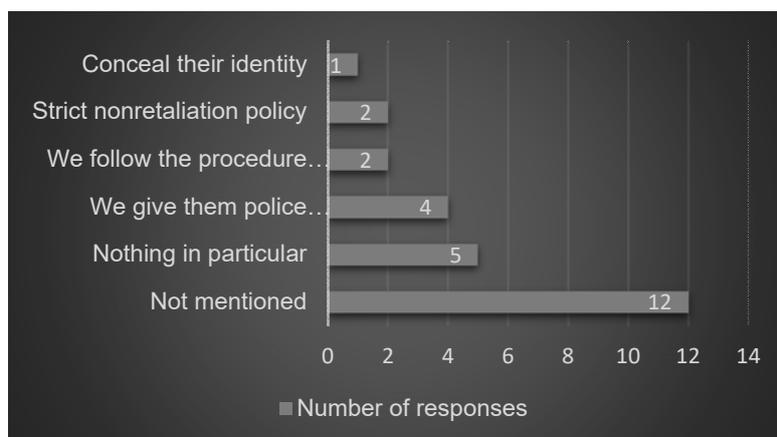


Figure 19. The above figure displays the various measures taken by Indian companies to protect whistle-blowers

SECTION – E – CODE OF CONDUCT/ETHICS

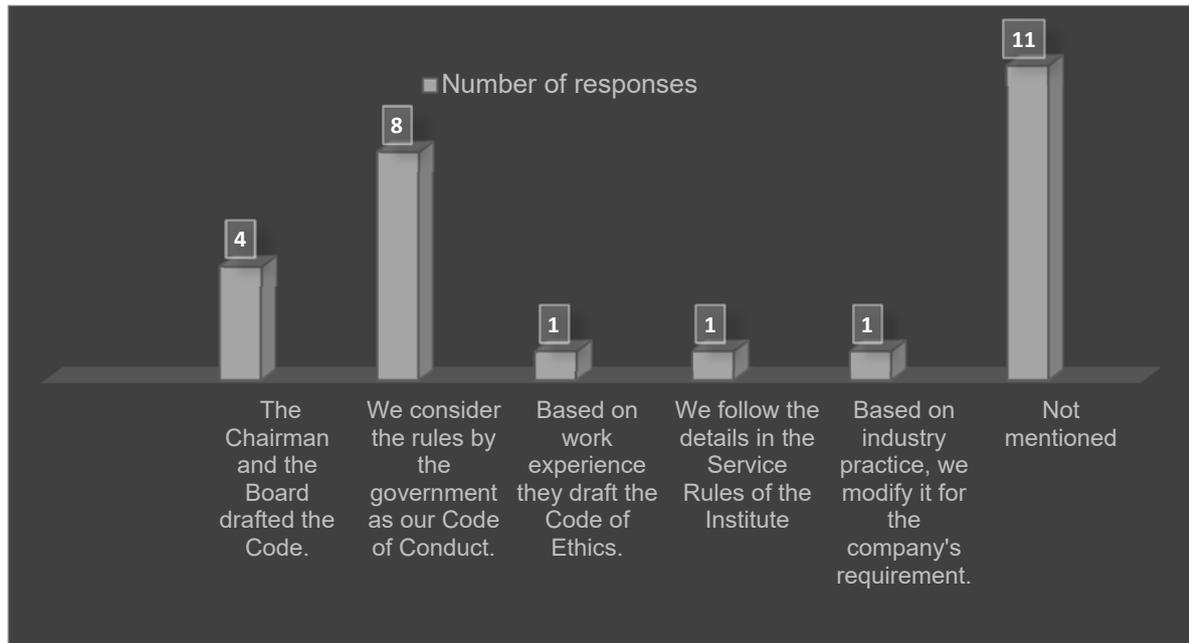


Figure 20. The figure represents how companies form their Code of Conduct/Ethics

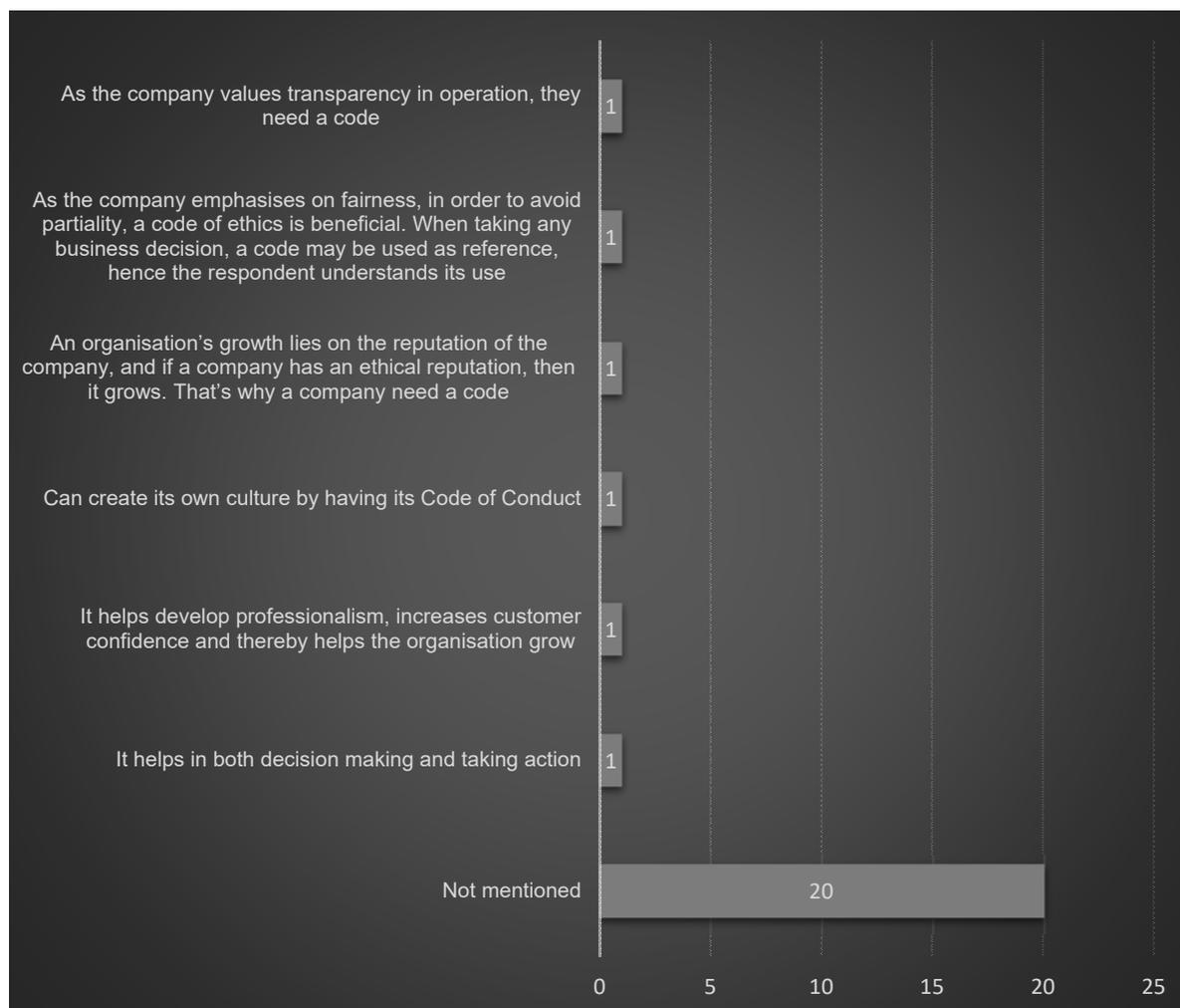


Figure 21. The bar graph represents the reasons why Indian companies believe that having a Code of Conduct/Ethics was beneficial to them

In an attempt to understand the perception various sectors have about Business Ethics, the respondents were asked *how having a Code of Conduct/Ethics would benefit their organisation.*

One respondent concluded *as the company values transparency in operation, they need a Code.*

Another respondent put forth the idea that *as the company emphasises on fairness, in order to avoid partiality, a Code of Ethics is beneficial. When taking any business decision, a code may be used as a reference, hence the respondent understands its use.* According to **another** respondent, *an organisation's growth lies in the reputation of the company, and if a company has an ethical reputation, then it grows. That's why a company need a code.* **Another**

respondent believed that a *company can create its own culture by having its Code of Conduct*. **Another** company stated that *it helps develop professionalism, increases customer confidence and thereby helps the organisation grow*. **One respondent** suggested it *helps in both decision making and taking actions*. **About 20** companies have chosen *not to provide any response* to this question at all.

SECTION - F - GOVERNANCE STRUCTURE

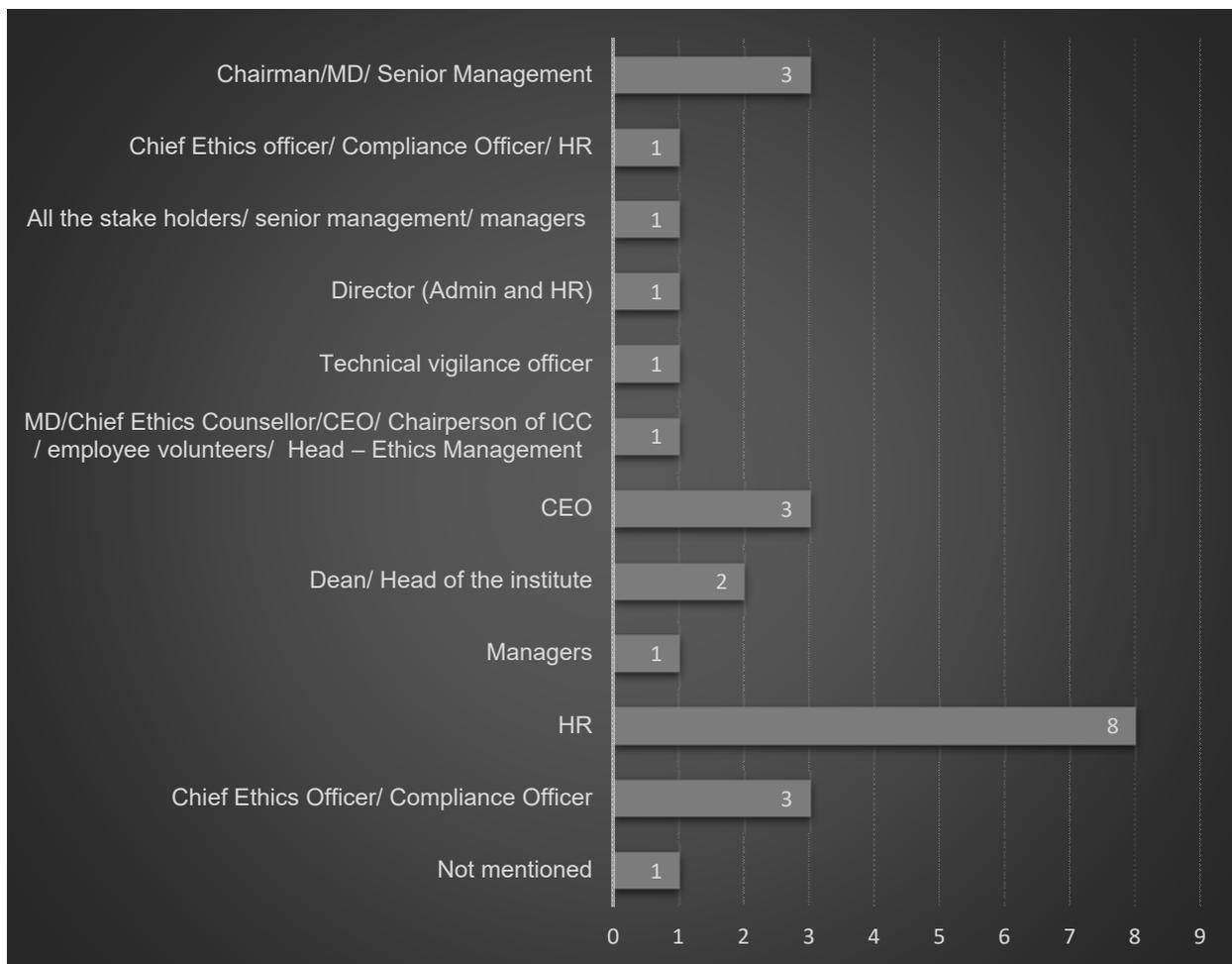


Figure 22. The figure represents the individual who is in charge of Business Ethics in Indian companies

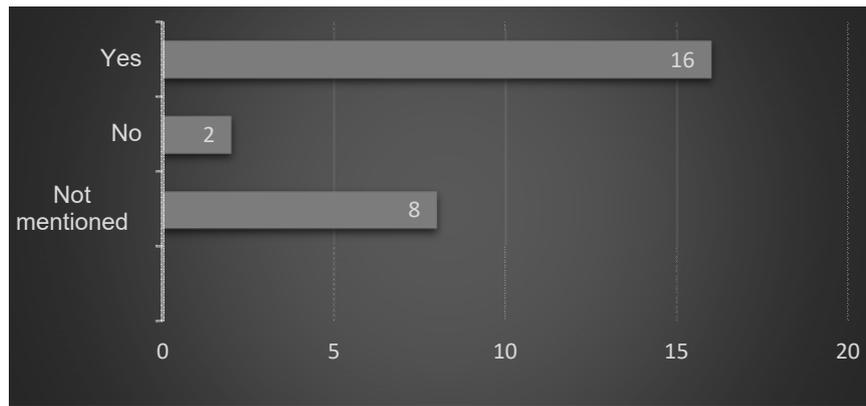


Figure 23. The bar graph shows whether the individual in charge of Business Ethics in Indian companies is accessible at all times

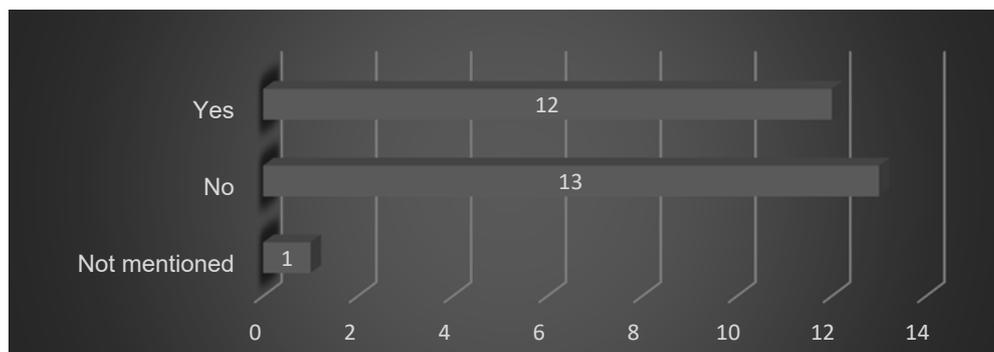


Figure 24. The graph displays the number of Indian companies that have and do not have an Ethics Board

Nearly **13** respondents stated that their company *does not* have an Ethics Committee/Board. Approximately **12** respondents stated that they *have* an Ethics Committee. Out these 12 companies, one company *has an audit committee - which includes the HR manager, division manager, Chairman, trustee and audit manager. This is the closest version of an Ethics Committee/Board.* Only **one** company has *not mentioned* whether they have an Ethics Committee/Board or not.

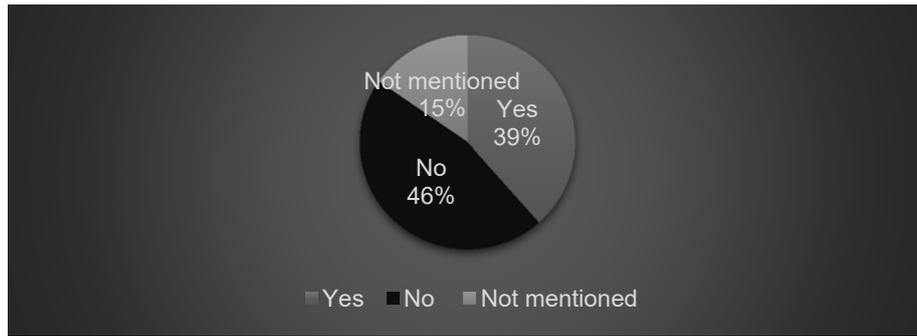


Figure 25. The graph shows whether respondents believe that the government does enough to regulate Business Ethics

The respondents were asked if the Indian government does enough to regulate Business Ethics in the country. About **12** (46 %) respondents stated that the government *does not do enough*, whereas **10** (39 %) respondents believed that the government *does enough*. Only **four** (15 %) companies *did not mention* whether the government does enough or not.

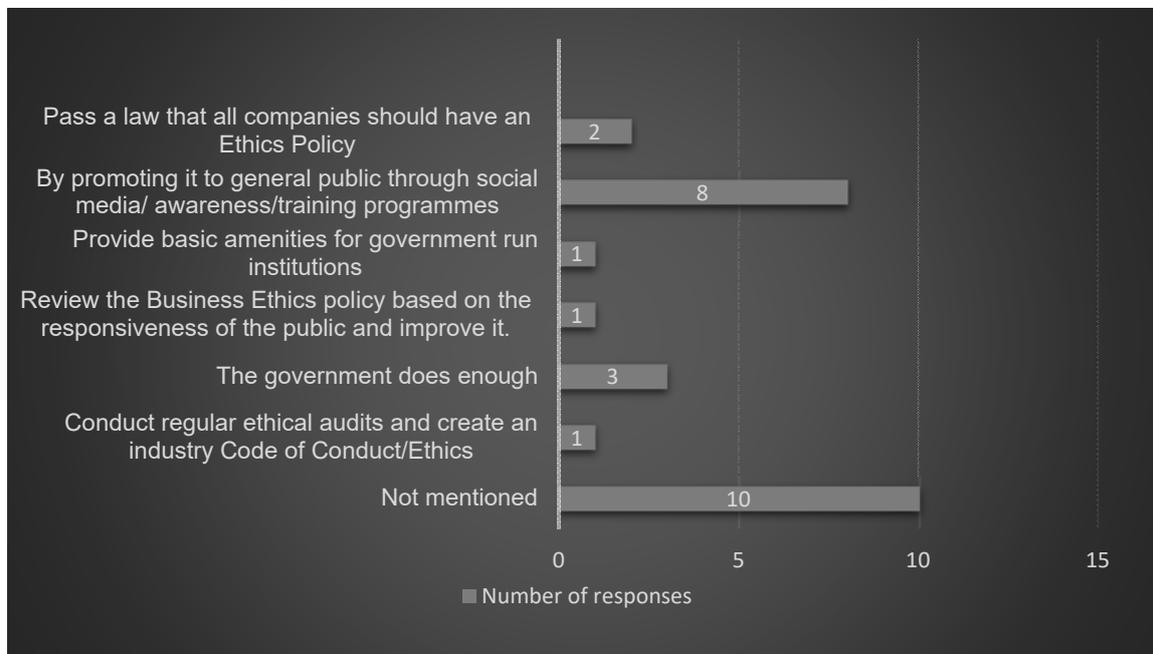


Figure 26. The graph shows the measures Indian companies believe the government should take to improve Business Ethics in India

As the respondents were asked if the government does enough to regulate Business Ethics, they were also asked to explain *how* the government can do better. **Two** respondents mentioned that *if the government passes a law mandating all companies to have an Ethics Policy, it would instantly raise the quality of Business Ethics in the country.* **One** respondent stated that *government-run companies must be provided with basic amenities, and this would reduce the dissatisfaction with the government and reduce unethical behaviour.* **Another** respondent mentioned that the government has to *review Business Ethics policies in the country based on the responsiveness of the public and improve it accordingly.* **Another** respondent mentioned that *private bodies and the government regulatory bodies must conduct regular ethical audits for all organisations and most importantly, create an Industry Code of Ethics.* Only **three** companies mentioned that *whatever the government is currently doing to improve Business Ethics will suffice.* Nearly **eight** respondents stated that *the general public isn't aware of the importance of Business Ethics, hence they violate it in the workplace. By promoting Business Ethics to the general public through social media through awareness/training programmes, and informing them of the consequences of violating Business Ethics, the government can improve the standard of ethics.* About **ten** respondents *did not respond* to this question.

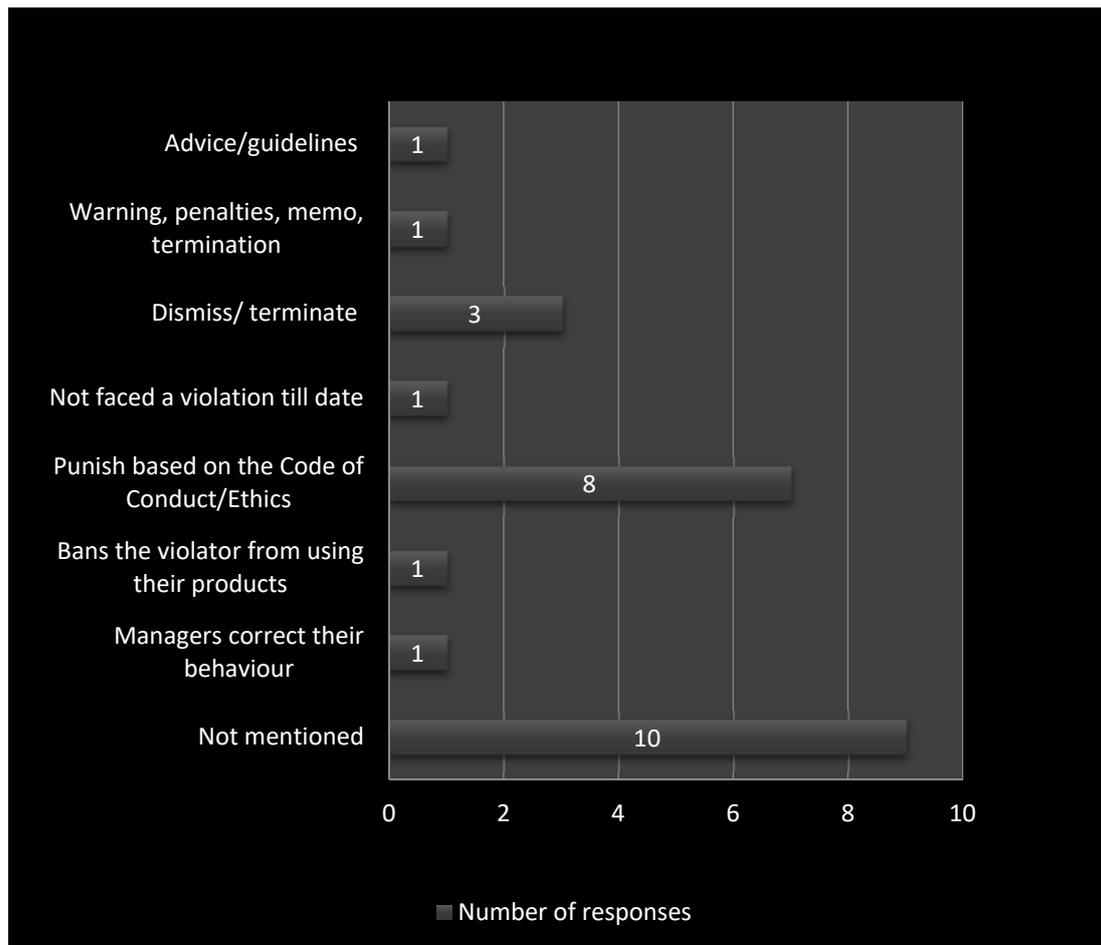


Figure 27. The graph displays the list of actions Indian companies take after they are made aware of the violation

The respondents were then asked what actions were taken in the event of an ethical violation. **One** company provided *advice and guidelines* to the violator, while **another** company has *managers correct their behaviour and explain the local culture*. **Another** company *bans the violator from using their products and removes them from their online community*. **One** company stated that *they punish the violator accordingly, based on the consequence matrix by issuing warnings, penalty, memo and if necessary dismiss the employee*. **One** company stated that *they have not faced any such situation till date, as they have not had any violations so far*. Nearly **three** companies *dismiss or terminate the employees*. About **eight** companies stated

that '*based on the nature of the violation, disciplinary action is initiated on the employees as per the Code of Conduct*'. Approximately **ten** companies have *not mentioned* the actions taken when their code is violated.

Recommendations for improving Business Ethics in India

1. Implement an effective Code of Conduct/Ethics. Stevens (2007) believes that the following steps will help managers use the Code of Conduct/Ethics to govern the behaviour of the employees in a company.
 - a. Before creating or amending the code, getting input from all the stakeholders, regarding the rules mentioned in the code, removing rules that are obsolete and adding new rules that cater to the current Indian business climate is an absolute necessity.
 - b. Regularly obtain feedback about the code, and try to identify why the implementation of the code is poor.
 - c. Ethical dilemmas and violations must be solved by referring to the Code of Conduct/Ethics.
2. Make sure that the Code of Conduct/Ethics is easy to comprehend, readable and concise. Schwartz (2004) found that codes have an impact when they are discernible, relevant, timely and written in a positive tone and active voice. It must be clear to the employees what the company considers ethical and unethical behaviour in the workplace, with an added list of corresponding punishments for each violation.
3. The best way to encourage ethical behaviour is by acknowledging its existence. Incentivising employees who behave ethically, and follow the rules mentioned in the Code, will motivate others to replicate such behaviour after witnessing their peers receiving accolades for their ethical conduct.

4. Keeping a database of the number of ethical violations a company has faced in a financial year will be beneficial to the company, especially for those in charge of Business Ethics. Keeping copious notes about the violators, the reasons for the transgression and the nature of the violation will help comprehend whether there is a particular violation that is specific to any age group, position, department, gender and whether it occurs during a specific time of the year.
5. Keeping a separate database on the number of times the whistle-blower policy is invoked and the reason for invoking the policy will be beneficial. If there is an increase in whistle-blowers, the company can take action accordingly to curb the rise of unethical behaviour.
6. Designate separate personnel, to handle issues solely related to Business Ethics. Ensure that Ethics or Compliance Officers are in charge of Business Ethics, instead of the Human Resource Department. Being in charge of ethical issues in the company will be cumbersome for the Human Resource Department, as it will constitute as additional responsibilities. Creating a separate Ethics Department or an Ethics Committee/ Board to handle violations will lessen the burden for the Human Resource personnel.
7. Ensure that any clause in the code that has unethical actions deemed legal, must be immediately amended.
8. Installing a toll – free 24/7 hotline that can help receive tips about violations. The reporting system must have a hotline that allows a whistle-blower access to the highest authority, that includes the CEO and the Board of Directors.

9. The Code of Conduct/Ethics must be reviewed annually or once every two years, by incorporating stringent rules and preventing any loopholes from existing.
10. The Code of Conduct/ Ethics has to be rewritten and revised, when merging with another company, or doing business with foreign companies as both companies maybe from different work cultures.
11. Training new employees, as well as non-local employees about the local culture via simulation and classroom/practice sessions, will help them assimilate into the work culture faster.
12. Organisations must formalise the ethical behaviour and ethical performance of employees with the assistance of employee appraisal systems, like an Ethics Scale. This will alert the employee, to reform their behaviour for their own benefit.
13. In order to avoid different employees developing different views and understandings of the topic, ensure that all employees have aligned themselves according to their company's Code of Conduct/Ethics so that they develop a uniform understanding of Business Ethics.
14. All ethical proceedings must be done in private, with only the concerned parties present. Until the violator is proven guilty, their identity must not be revealed, so that their reputation is not affected.

15. The government must introduce legislation that is iron-clad so that the interests of shareholders, stakeholders and consumers are maintained, whilst perpetrators are severely punished for their malpractices.

16. Choosing employees and managers who display ethical behaviour, and training such personnel to be in charge of Business Ethics will ensure that the code will be implemented effectively. Laufer and Robinson (1997) are of the opinion that, when managers follow the Code of Conduct/Ethics, it can positively influence the other employees in a company. Treviño, Weaver, Gibson & Toffler (1999) also found that ethical leadership and frequent discussions of Business Ethics at work, has played a role in increasing ethical behaviour. Ethical leaders or managers who promote ethics, positively influence the company and the code that the company drafts. Ethical leaders who set examples and uphold the ethical standards and expect the same from other employees, contribute to creating an ethical climate in the organisation. As Kouzes and Posner noted, “great leaders like great companies create meaning – not just money” (2003, p. 59). They observed that employees work better, improve their work ethic and performance for leaders who support, guide and inspire them to achieve their goals.

17. One way to stop wrongdoing in an organisation is for external forces like government regulatory bodies or the free market to impose heavy fines or sanctions on companies which violate the Industry Code. External bodies must constantly inspect companies and warn the top management of the company if they discover any malpractice. The external regulatory bodies must counsel the top management about the consequences of unethical behaviour and ask the company to put an end to the current unethical behaviour and prevent any further wrongdoing.

18. The internal forces within the organisation must ensure, encourage, convince employees to avoid violating the Company Code or Industry Code. The moment the code is violated, managers and senior members of management cannot intervene, as the employee has already violated the code. However, if they constantly emphasise on the compliance of the code, the chances of violations will reduce.
19. Narrate real-life examples about code violations and its consequences during orientation sessions for new recruits. Encourage employees to approach the Ethics Committee/Board if they are unsure whether they are violating the code or not, or if they cannot comprehend any clause in the Code.
20. Mention explicitly in the Code of Conduct/Ethics, that *not reporting a violation, is also a violation*. Not reporting a violation is equivalent to being complicit. Hence, employees must consider it their duty to report the ethical violations of their colleagues, irrespective of how high of a post the violator holds in the company.
21. Ensure that the Prevention, Prohibition of Sexual Harassment Act, 2013 (POSH) law is applicable to social media as well. Online harassment and inappropriate comments/sexual innuendos on social media by colleagues against company employees must also be deemed as an offence.
22. Invite external bodies to conduct ethical audits in the company and take appropriate action based on their feedback.

23. The Ethics Department or Ethics Committee/Board must conduct tests for new recruits and regular employees regarding the Code of Conduct/Ethics and rules of the company on a frequent basis.
24. Ensure that the employees in charge of ethics in the company are accessible to all the employees, in-person during working hours and via email or telephone during holidays and after working hours, so that any urgent matter can be dealt with immediately.
25. Include a consequence matrix in the Code of Conduct/Ethics, clearly stating the violation and its corresponding punishment. Make it available on the company website, notice board, and contracts for both employees and external contractors.
26. Create a whistle-blower policy, which keeps the identity of the whistle-blower a secret, along with a strong *non-retaliation* policy as it will protect both the reputation of the company and the whistle-blower. Ensure that the identities of whistle-blowers are kept completely anonymous. If they are ostracised, bullied or ignored by their colleagues, the Chief Ethics Officers must intervene to put an end to this behaviour.
27. Don't overlook the violations of well-performing employees, high - achievers and talented individuals. Accountability for violations must be for all employees, without an exemption.

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Annexure I:**SECTION A – NEED FOR ETHICS**

- 1) In your opinion, what does ethics mean?
 - a) A way of living life.
 - b) The principles by which all human beings must live their life.
 - c) The right way to do things.
 - d) Values that are a natural extension of our personal lives.

Add any other response you deem necessary:

- 2) In your opinion, what is ethical behaviour in a business environment?
 - a) How you conduct yourself in a business environment, that is, by following all the rules and regulations in the company.
 - b) Transparent, unbiased and fair business dealing at all stages and levels.
 - c) Working in an organisation by using the Code of Conduct as a reference for individual behaviour.
 - d) The organisation and employees that never breaks the law of the country.

Add any other response you deem necessary:

3) Why do you think ethics is important in the business world?

- a) It incorporates more transparency and conducive environment at work.
- b) Business Ethics brings in discipline in the business world.
- c) It helps build trust among all stakeholders.
- d) It helps curb unethical behaviour.

Add any other response you deem necessary:

4) How do you know you have made the right ethical decision?

- a) The higher-ups are in concurrence with the decision.
- b) Employees' task performance has improved after the decision was made.
- c) When you can sleep peacefully at night, guilt-free.
- d) When you have handled the situation by referring to the Code of Conduct.

SECTION B – ETHICAL CLIMATE IN YOUR ORGANISATION

- 1) On a scale of one to six, how would you rate the level of ethics in your company?
- a) One – we don't have a written/ documented Code of Ethics.
 - b) Two – we have a verbal agreement for a Code of Ethics.
 - c) Three – we have a Code of Ethics, merged with our Code of Conduct, but we don't implement or exercise it regularly.
 - d) Four – we have a Code of Ethics, which we remind the employees about when they violate it.
 - e) Five – we have a Code of Ethics, and we take action against the violators.
 - f) Six – we have a Code of Ethics and administer periodic written tests on the candidates who apply/ and observe the behaviour of the current employees.
 - g) Seven - we have a Code of Conduct along with cascades of awareness programmes for new incumbents.

Add any other response you deem necessary:

- 2) What are the major or common ethical violations that your company/employees have faced:
- a) Bribery
 - b) Violation of environmental standards

- c) Violating contract or payment terms with suppliers
- d) Sexual Harassment

Add any other response you deem necessary:

3) How many Code violations does your Company face during a financial year?

- a) 1 - 10
- b) 10-20
- c) 20 - 50
- d) We do not keep count. (Please explain why you don't keep count)

Add any other response you deem necessary:

4) What were the reasons given for these violations?

- a) Forgetting the rules and regulations of the company.
- b) The laws were violated for the sake of the company.
- c) Unawareness of the Code of Conduct.

- d) For the sake of promotion at work / self-benefit.

Add any other response you deem necessary:

- 5) Has your company ever been audited by an external ethical committee/agency? (If yes, could you share the results of the audit?)

SECTION C – IMPLEMENTATION OF ETHICS

- 1) How often does your company review your Code of Conduct/Ethics?
 - a) Annually
 - b) Once in five to ten years
 - c) Whenever its necessary.
 - d) It has not been reviewed since it was drafted. (Please explain why)

Add any other response you deem necessary:

- 2) How do you ensure that your employees/ external contractors are aware of the Code of Ethics?
- a) It is mentioned in the relevant documents which is given to both employees and external contractors.
 - b) We brief both the employees and external contractors about it before or during signing of the contract.
 - c) During orientation programme, classroom sessions, cascades, e – learning modules and videos.
 - d) It is mentioned on the company's webpage for everyone to refer to.

Add any other response you deem necessary:

- 3) What measures have you taken to prevent the violation of the Code of Ethics?
- a) We publicise the violation, so that others don't repeat it.
 - b) We conduct regular ethics training programme, with the help of senior management.
 - c) We narrate real-life ethical violations and their consequences during orientation.
 - d) Nothing in particular. (Please explain why you don't do anything particular)

Add any other response you deem necessary:

-
- 4) Certain ethics are cultural, and need not be mentioned in the Code of Ethics. For example: In Korea, employees address their superiors with their business title and last name. They are forbidden to address them in any other way. As Business Ethics differs in countries, what steps have you taken to sensitise/educate all your employees to the local culture, so that they do not violate the local cultural/ethical norms?
- a) We train new employees with regard to behaviour in the local business environment, explaining what is acceptable and what's not.
 - b) Seniors or managers correct their behaviour and explain the local culture.
 - c) Colleagues usually explain it in an informal manner.
 - a) Nothing in particular. (Please explain why you don't do anything particular)

Add any other response you deem necessary:

- 5) How do you appraise the ethical behaviour of your existing employees?
- a) Administer ethical tests.
 - b) Created an ethics scale, rated their behaviour accordingly and mention it in the performance appraisal.
 - c) Senior managers observe ethical conduct and address them during EAP programmes.

d) Nothing in particular. (Please explain why you do not do anything particular)

Add any other response you deem necessary:

6) Does your Company have an articulated policy against Sexual Harassment?

- a) Yes.
- b) No. (Justify this answer)

Add any other response you deem necessary:

7) Does your Company's Code of Conduct incorporate a clause that states : **“not reporting a violation is in itself a violation”**?

- a) Yes
- b) No.

Add any other response you deem necessary:

SECTION – D – Whistle blower policy (*Kindly note: Please answer the following questions only if you have a whistle - blower policy*)

- 1) Does your company have a whistle - blower policy?
 - a) Yes. (If yes, please share it with us, if it is not on your company website)
 - b) No.

Add any other response you deem necessary:

- 2) How many times have your employees invoked the whistle- blower policy on an average?
 - b) 1- 10
 - c) 11-20
 - d) 21-30
 - e) We do not keep count. (Please explain why you don't keep count.)

- 3) What measures have you taken to protect whistle - blowers in your company?
- a) We follow the procedure mentioned in the whistle - blower policy.
 - b) We give them police protection if necessary.
 - c) We do not allow others to bully/demote them.
 - d) Nothing in particular. (Justify why you don't do anything in particular)

Add any other response you deem necessary:

SECTION E – CODE OF ETHICS (*Do you have a Code of Ethics, which is different from your Code of Conduct? If yes, then please go through this section. If not, move ahead to SECTION - F*)

- 1) How did your organisation draft your Code of Ethics?
- a) Referring to other company's Code of Ethics (If yes, can you provide the list of companies)
 - b) The Chairman and the Board drafted the Code.
 - c) We consider the rules set by the government as our Code of Conduct.
 - d) There is no information available on the formulation of the Code.

Add any other response you deem necessary:

2) How does having a Code of Ethics separate from a Code of Conduct benefit your organisation?

SECTION F – GOVERNANCE STRUCTURE

1) Who in a company is responsible for Business Ethics?

- a) Chief Ethics Officer/ Compliance Officer.
- b) HR.
- c) Managers.
- d) Chairman/MD/ Senior Management.

Add any other response you deem necessary:

2) Is the relevant individual in charge of Business Ethics available at all times (including holidays and Sundays) to the employees for easy access, consultation and advice?

- a) Yes.
- b) No. (Please explain why they are not accessible at all times)

Add any other response you deem necessary:

3) Does your company have an Ethics Board/Committee?

- a) Yes. (Please mention the head of the committee and how the members are chosen)
- b) No.

Add any other response you deem necessary:

4) Do you think that the government does enough to regulate Business Ethics?

a) Yes.

b) No.

Add any other response you deem necessary:

5) How can the government improve in raising the standard of ethics?

6) In the event of a violation, what are the actions taken?
