

Business Ethics in India

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'Most businesses in India act ethically most of the times' is a fact that most people do not realise most of the times! It is a common perception that a business can not be run ethically under current conditions and so most businessmen would be essentially unethical.

A major reason for such misperception by the common man about ethics in business is the vagueness regarding the meaning of the word ethics itself. 'Your ethics are different from mine'; 'What ethics is depends on the view point you take.'; 'Are we talking about ethics or morals?' are the refrains we hear in the society, in small and medium businesses and also in the board rooms of large corporations. We need to define ethics clearly, understand how it is different from morals, and also know its relationship with laws before we proceed to judge whether the Indian businesses today are ethical or not.

On Ethics and Morals

Students of management and practicing managers are no different from the enlightened citizens of India when it comes to the usage of the words ethics and morals. These words are often used interchangeably and both are almost invariably considered as subjective judgments that can differ from person to person. Even the vast literature on this subject, including books on management, seems to shy away from defining the terms ethics and morals. Fortunately, these have been defined recently. These definitions are not only easy to understand but can be put in practice for judging any action.

Ethics Defined

Both ethics and morals refer to the 'do's' and 'don'ts' in human society. So, we will constrain our discussion on ethics as behavioural guidelines amongst human beings. As a human being, each of us does any action essentially for one's own happiness. The actions belong to two distinct categories: those that affect other person(s) and

those that do not (directly) affect other person(s).

1. Let us consider an action X taken by a person A, which affects another person B, to make himself happy. If the person B were to take the same action X that affects A similarly, would A continue to be happy? If YES, then the action X is ethical. If NO, then the action X is not ethical.
2. In this definition, B can be a group of persons or even the society as a whole. Also, if the action X affects another person(s) C, then an interchange of A with C must also be taken into account while deciding the ethicality of action X.

Let us take a concrete example for 1. : If A steals Rs 1000 (action X) from B, A is happy. But if B steals from A the same Rs 1000, A becomes unhappy. Therefore, 'stealing' is unethical.

Consider an example for 2.: If a chemical production unit A pays the Pollution control Inspector (B) a bribe to get a clearance without having done adequate effluent treatment (action X), both A and B would be happy even after B takes the place of A. But what about the farmers nearby (C) whose crop yield goes down owing to contaminated water? Here, A interchanging with C will make A, unhappy. Therefore, not treating the effluent properly is unethical.

We thus see that ethics is applicable universally amongst all human beings. It can not be different between different societies and over long periods of time.

In short, *Ethics is universal.*

Morals

Morals are those edicts of do's and don'ts that are instilled in a person from childhood onwards by the society. These get communicated and imbibed via the mother, the family, the schools and the local norms of behaviour. The religion to which the family happens to belong plays a large role in this process of instilling norms of

thinking and behaviour. These norms are imbibed by each of us without any intervention from the intellect, until such a time that the adult starts thinking about the why (and why not) of moral tenets.

We need to realise that intelligence based acceptance does not necessarily lead to a behavioural change even when desired by the individual. A strictly brought up Jain person may accept intellectually that meat eating is not bad, and can supply good proteins etc, but will not be able, therefore, to start eating meat the next day. Even the act of questioning an ingrained moral tenet is difficult because strong emotions are involved.

This societal origin of morals tells us clearly that morals are culture specific; therefore, these can differ between persons, families, communities and religions. We know for certain that the morals have changed considerably over time periods.

In short, *Morals are culture specific.*

Laws

Laws also tell us what to do or not to do. When a society wants certain moral/ethical tenets to be enforced, whereby those who violate it can be punished, we term these edicts or rules as laws. Even primitive societies have their unwritten laws, and organisations have many rules to govern the behaviour of employees.

Laws, therefore, are not only culture specific, but are also location specific. These can be different at the national, state, city and even the village level.

In short, *Laws are culture and location specific.*

Any human action can be classified into the seven distinct classes formed by this EML Venn diagramme. Table 1 shows examples of actions classified in this manner.

Every action is either acceptable, or rejection worthy or neutral with respect to ethics, morals and laws. You would note that the examples chosen are such that strong

Table 1: Classification of Actions, with examples

Class	Denoted by	Example	M E L
1. Only Moral	M	A Hindu eating beef	R N N
2. Only Ethical	E	Homosexual relationship between adults	R A D
3. Only Legal	L	Driving on the left (right) side of the road	N N A
4. Moral and Ethical	ME	Covet not thy neighbour's wife	A A D
5. Moral and Legal	ML	Wife burning herself in husband's pyre (sati)	A R D
6. Ethical and Legal	EL	Prostitution by willing adults	R A D
7. Moral, Ethical and Legal	MEL	Stealing other's property	R R R
A= Acceptable	R= Rejection worthy	N= Neutral	D= Depends*

* Depends on country/state/ time period etc

emotions are associated with most of them. We, especially as managers, must learn to keep our emotions at bay when classifying any action in this manner. These examples also serve to illustrate how conventionally accepted moral tenets can be tested against ethics. Only those tenets or edicts found acceptable or neutral by the ethics test need to be considered for 'action'. Here, the

choice is entirely up to the individual; whatever the decision, it needs to be respected by others even if it is found 'disagreeable' in their personal moral views.

Practicing Ethics: Society

What should the society do about those moral tenets that are found unacceptable by the ethics test? These

should be seen in the context of their impact in terms of severity and spread in the society. Table 2 shows this classification along with an example for each class.

The classifications given in this illustrative table are somewhat arbitrary, but it is known that when a group of 6-8 persons comes to a consensus on such matters, the agreement between groups is good. Obviously, those

Table 2 Prioritisation for Societal Actions on Ethically Unacceptable Tenets

Spread-> Severity	Small <10%	Medium 11-40%	Large >40%
Negligible	Concocting stories for self importance	Skin colour prejudice	Telling white lies
Small	Divorce is a sin 1	Superiority of own caste 2	Men superior to women 3
Medium	Employing only own caste/religion persons 4	Women's place is only at home 5	Bias against employing women at work 6
Large	Birth control is a sin 7	Practicing untouchability 8	Practice of sati- wife burning herself on husband's pyre 9

with negligible impact may be tolerated even when they occur on a large scale.

The priority for action for the society would be the highest for cells 6, 8, 9; somewhat less for cells 3, 5, 7; and much less for cells 1, 2, 4. Laws may be needed to eliminate bad practices like untouchability (8), sati (9) and bias against women (6).

Practicing Ethics: Managers

The question of prioritisation just does not arise for an individual, especially for a manager. Who must change his/her behaviour away from ethically unacceptable actions. A manager must understand the compelling reasons why he/she should be clearly aware of the ethical implications - for self and for others - of every intended action. He/She must then choose only those actions for implementation that are ethically sound.

Each manager needs to behave ethically all the time because of the vital need--

- " To win the trust of his/her juniors, colleagues and also of seniors. Even negligible deviations from ethical practices destroy trust.
- " To ensure that none of his/her actions are in his/her self-interest at the cost of the organisation. Even a minor slip makes him/her vulnerable to undue pressures from opponents/labour unions, especially

while taking tough but fair actions for the good of the organisation

- " To behave in a fair manner without prejudice of sex, caste, religion etc so as to motivate employees to give their best for the set organizational goals
- " To avoid the temptation of taking unethical short cuts for short term gains, and to work for the long term survival and growth of the organisation.

This advice sounds good in theory, but what about its practice in the current Indian business scenario? Are the Indian businesses ethical enough for all managers to adhere to ethics without any adverse effect on their career growth?

Ethics in Business: India 2010

The present business environment in India is characterised by four important socio-economical and political parameters. India has

1. A functioning democracy, with independent judiciary and a free press
2. A free market, globalised economy with an active private sector
3. Ease of entry and exit for businesses
4. A large number of NGOs -voluntary non-government organisations for social causes -are active

Though India needs to make several improvements in each of these parameters to become a top class nation, the situation today is much better than the era before 1991-1995. This is evidenced by the high rate of growth of GDP in the range of 8.0 to 9.0 percent for the past several years. Given this business environment, all businesses -production, trade, and services - need to survive and grow in fiercely competitive globalised markets. Can any business really afford to be unethical?

Let us examine the behaviour of any business with respect to each stakeholder that supports its existence and growth.

Customers-A grocer who cheats by giving home delivery of less than billed weight of the items will soon find that he has to close his business. The same logic holds good for any business giving less value for its customer's money. Unethical behaviour with customers is a sure route to bankruptcy.

Employees-Pay less to employees compared to other similar occupations, bring in nepotism, be unfair in promotion practices, be callous in looking after the hygiene, safety and personal needs of employees and discover that your business can neither recruit good persons nor retain them.

Unethical practices hurt in the short, the medium as well as the long term!

Vendors-Treating the suppliers (raw materials to equipment) in an arbitrary manner, engaging in nepotism, seeking underhand commission etc invariably hurt. These result in lowered average quality, more defectives or higher prices. These hurt the profitability of the business in the medium term, if not immediately, and make survival difficult.

Banks-Those who provide finances for capital expenses and for the working capital has to be sure that the management is worthy of their trust. The banks need to have faith not only in the technical capability of the management, but also need to have an assurance that the financial dealings of the business are proper. Even a small slip on the wrong side of ethics makes this trust disappear overnight! No business can survive when deprived of the needed funding.

Shareholders-Since the 'share' holders themselves manage the micro, small and medium enterprises, no conflict of interest exists between the two. But in public limited companies and in the cooperative societies, the small shareholders from the public/interest group can get a less than fair return on their investment. The top management can take an unduly large share of profits for themselves, show less profits, and make money 'on the side' for themselves at the cost of the organisation.

Such unethical practices make survival precarious and the scope for raising capital through enlarging the equity disappears.

Society-The public pressure on the business is increasing: the business is not only asked not to harm the environment but also expected to accept some social responsibility. Autonomous bodies like SEBI and the government strengthen this demand through codes of conduct and laws. Public Interest Litigations ensure that the collusion between the polluters and the pollution controllers is reduced. The large scale businesses are accepting and acting on their Corporate Social Responsibility. A large part of the funding to the NGOs of all kinds comes from the charitable donations/support from the small and medium scale businesses.

We thus see that every business in the competitive markets of today and tomorrow is, in fact, behaving ethically with all its stakeholders simply because it needs to survive and grow. Unethical practices with stakeholders lead invariably to the extinction of the business, sooner or later. Therefore, the statement (made in the beginning of this article) that most businesses behave ethically most of the times is indeed valid in India today.

But then, why do most people feel that the Indian businesses are mostly unethical?

Business Unethical

The one stakeholder that is invariably present in each business but is lost sight of is the 'government'. The stakeholder Society is benefitted when its government governs well and provides infrastructural facilities like water supply, health, education, roads etc. Only because the government does all of this and maintains law and

order, an enterprise is able to establish itself, to survive and to grow through fulfilling the felt needs of the society. Little thought is needed to realise that almost all of the unethical behaviour of the businesses in India are in the area of their interface with the government administration at all levels; nation, state, city and village.

Tax Evasion-Tax evasion and corrupt practices are literally rampant on the Indian scene today, both at the level of individual citizens and of businesses of all kinds and scale.

Worldwide experience shows that when the rates of taxation are high, the proportion of persons/businesses evading taxes is very large. The rates of income tax in India were rather high during the period of socialistic slogans of "garibi hatao" and so were the different slew of taxes at the central, state and city level high.

The complexity of rules with different rates of taxation on different classes of goods gave a lot of discretion to the tax collectors. This led to tax evasion through collusion between the tax payer and the tax collector. Subsequently, after about 1992-5, the tax regime has been improved considerably to bring the rates down and to make the rules simpler. The total tax collection has been increasing year by year demonstrating that better rules lead to better compliance.

Even as the first decade of the 21st century ends, the habit of tax evasion formed in the earlier periods has not reduced to any negligible level; tax evasion continues to be rampant at the personal as well as the business levels. The fact that any tax evasion is indeed a theft has not taken root like the moral tenet "Do not steal". Good, religious and otherwise law abiding morally upright individuals do not hesitate to evade tax! Apparently, no religion has given a commandment like "Thou shalt pay thy taxes fully to the government". But if the same government falls short on providing infrastructure or law and order, both vital to the individual and the business to survive and to grow, all get morally indignant.

A substantial proportion of professionals, traders, small scale manufacturers and even medium scale businesses avoid paying due taxes fully. They resort to showing less income or less of taxable activities of all kinds. Getting the tax collectors to classify the product in a

lower tax category and reducing the tax burden is also done. Even several medium and large scale businesses are known to have avoided paying some taxes long due. We are familiar with the estimates of black economy generated from tax avoidance. This illegal black money is expected to be of the order of 40% of the nation's economy. The loss to the nation from tax evasion is indeed colossal.

Corruption-World experience again shows that nations where undue restrictions on business are high, the scale of corruption is also high. The more the number of impractical or restrictive laws/rules the more is the discretionary power in the hands of the bureaucrats and the politicians, and the more is the corruption at the interface of the public services and the citizen. In spite of the progress made by India post 1991 in dismantling the restrictions, our environment is still not business friendly as in Malaysia, leave aside in Europe, Japan or the USA. The common man as well as the businessman is subjected to many conditions that make them resort to corrupt practices.

The avenues for corruption are literally innumerable, but corruption takes place only in six different ways: speed money, nuisance value, underhand commission, nepotism, avoiding legal punishment and bending/breaking laws/rules. The common citizen has to pay speed money to secure legitimate service due to him. He also resorts to 'saving money' by bribing the policemen when caught for a traffic offence.

The businessman, however, has to succumb to all six forms of corruption. The inspector has to be kept 'happy' so that he does not create nuisance through spurious allegations etc. Underhand commission and nepotism, which existed on a large scale before 1991 in the private sector, have almost disappeared because of the competition and the freedom to close the business! But in the government, both flourish on a large scale. The modus operandi for managing pollution is to bribe and to escape legal punishment. Examples of laws/rules/procedures being conveniently bent/changed/broken to suit specific business parties are rampant.

As a nation, we lose tremendously due to rampant corruption. The poor are hit the maximum; they have

to shell out a substantial percentage of their meager income in order to survive. They also are deprived of the welfare measures that government could undertake from the tax money and from savings that accrue when corruption is absent. The businesses feel compelled to pay speed money and nuisance value.

Transparency International, which collects reliable data on corruption in about 175 countries, has some startling statistics to reveal. India has been roughly in the middle of all countries from 1995 to 2009. But this is no satisfaction! The measure of corruption is the Corruption Perception Index. The CPI ranges from 0 to 10, where 10 means absence of corruption. India was at a low of 2.7-2.9 during 1995 -2004, and has risen to 3.6 or so after 2005. We have a long way to go to become well-governed least corrupted countries like Canada, Sweden, and Switzerland who score above 9.0 consistently.

Vested interests in politics and in beurocracy make the rate of progress towards a a relatively corruption free society rather slow. Public pressure through NGOs (Non-government organisations devoted to societal causes) has lead to laws such as the Right to Information Act. India's independent judiciary has provided a good tool in the form of Public Interest Litigation. Continuous public pressure through NGOs and the free press towards exposing corruption and changing laws; overthrowing corrupt governments at election time and businesses deciding to abjure corrupt practices are the only feasible ways of helping India to become corruption free. This is a long term prescription?

Practicing Ethics in Business

In the 21st century India, *all businesses can afford to pay all due taxes and avoid corrupt practices while still making good profits needed for survival and growth.* This is a fact that has to be understood clearly by all. They have a large number of good examples of successful and ethical businesses in India to emulate; and their number is increasing due to the changed expectations of multinational corporations from their Indian vendors and partners. Only a firm resolve by the top management can make it possible for a business organisation to behave ethically in its interface with the government. The top alone can decide not to evade taxes and simultaneously

find ethically right ways of making the business grow.

What can businesses do right away so as not to succumb to corrupt practices by the public servants? Analysis of India data by Transparency International show that businesses can manage to get their due rights without being compelled to use the three main routes of corruption: namely, speed money, nuisance value and underhand commission. The TI data brings out that the most corrupt areas in India are the police and the legal system. Even in these, a demand for bribe is made only about 40-60 % of times; and only about half of these are actually paid. This is very bad by international standard of near zero demand for bribes, but tells us that the assumptions of 'every one is corrupt' and 'one must pay' to get each due service are quite wrong.

Individuals and businesses can manage to get their due rights without bribing if they opt for so doing. A substantial number of small, medium and large businesses in India avoid such corrupt practices today by simply adhering to the rules and regulations correctly. Thereby they make themselves non-vulnerable to undue pressures from government functionaries.

Resorting to higher authorities when a person at the desk level seeks gratification, produces desired results most of the times. (Even a corrupt boss has to maintain a clean image!) Once regulations are properly read, understood and followed, the need to escape legal punishment does not arise. However, 'not breaking laws' needs strong ethical conviction at the top management level. The more the violations of this kind are caught and punished; the better will be the compliance. Top bosses have realised that their prestige in the society and the goodwill for their business are dependent on their adhering to ethical standards.

Use of information technology has made it possible to bring in great transparency in systems and has eliminated corruption at many levels. India is marching internally towards better democracy, improved governance, fewer unduly restrictive laws and simplified tax regime. Externally, India is getting increasingly integrated with the businesses and institutions from the advanced countries that are far ahead in ethical behaviour in business.

The external as well as the internal pressure for businesses to behave ethically also in their interface with the government are increasing. Many more of the younger generation entrepreneurs are willing to adhere to ethical standards. Given all these trends, we hope to see a substantial reduction in tax evasion and in the use of corrupt practices by business.

The management students as well as the young managers of today have to take these trends into account and build their careers by following the right path-the path of right.

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