

# 3 Perception Belies- Ethical Management Practices Not always Rosy with MNCs

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## **Abstract**

This paper is based on the role of ethics in management. A comparison of the ethical management systems of MNCs in India and Indian Companies has been made covering various ethical management practices. The normal belief that ethical management systems in MNCs are better are found to be largely untrue. With reference to ethical practices, Indian companies fare better. For the purpose of comparison, the views of the senior management were only taken while the original research also covered middle management and employees.

**Key Words :** Ethical Related Actions, Values, Cultures, Ethical Standards, Corporate Hierarchy.

## **Introduction**

The most critical issue in ethics management on one hand is the continual conflict between the economic performance of the firm, measured by revenues, costs & profits, stockholders' interest and on the other hand the social performance of the firm, which is difficult to measure but represented by obligations to employees, customers, creditors, suppliers, distributors and members of the public in general.

The chairman of the Board of Deloitte & Touché, USA LLP said this: "Corporate leaders have a duty to build and foster a value-based culture

that thrives on high ethical standards and makes corporate and social responsibility a top priority. Only by instilling these values in our respective organizations we will be able to bestow a promising future to the next generation".

The senior management of both the MNCs and Indian companies have to play a major role in instilling such ethical standards & values in any organization. This paper indicates some of the ethical roles to be played by the senior management. These are not exclusive roles, but are of routine nature and have to be exercised, followed and course corrections carried out to make the organization a success. A comparison of the ethical management practices as researched by the authors has also been indicated.

## **Review of Literature**

Human beings in today's world are bothered about perpetual conflicts, challenges and chaos in the society. Environmental problems are adding up to the sad scenes. Such strife is due to imbalances in mind and heart and not due to the marvelous development in technology and its application. Opportunities exist in the society to reduce such dilemmas which can be achieved by coupling development in all spheres along with humanism.

Lala (2006) says that an ethical leadership consists of "Communication, compassion,

competence, coverage, decision making, humility, integrity, management, purpose, stamina, teamwork, training and vision". He stresses the importance of 'compassion' in ethical leadership and quotes Churchill who calls compassion as 'deathless glory'.

Kaul (2007) quotes from 'Dhammapada', the holy book of Buddhism "It was not outward appearance of modesty or purity that made one noble but the purity of one's thoughts, purged of all defilements and established in the eternal Dhamma that made one noble".

The Old Testament says, "He who walks with the integrity walks securely".

Intellectuals of the recent past have this to say on ethical values:

- Rabindranath Tagore says, "What is valuable to a man when he is bad becomes worse than valueless when he is good".
- Vivekananda says, "Great error of all ethical systems is failure to teach means to refrain from doing evil".
- Mahatma Gandhi says, "In the path of morality, there is no such things as reward for moral behavior".
- Sri Aurobindo says, "The kernel of true ethical being remains always the same – will, character, self-discipline, self mastery – these are almost the first conditions for human self perfection".

In the 'Perspectives in Business Ethics' author Hartman (2003) brings out various Ethical Theories and Approaches and indicates applications of Traditional Theories to Modern Business Making. She suggests that in corporate & business levels, the moral decision making processes can be regulated through the publication of code of conduct, code of ethics and corporate values of the company.

In the book 'Swami Vivekananda on Universal Ethics and Moral Conduct' by Swami Ranganathananda (1995), says that ethics & morality are the "Real Basis of Life". He adds: "All knowledge is within us. All perfection is there already in the soul but this perfection has been covered by nature; layer after layer of nature is covering this purity of the soul. We simply take the veil off; and the soul manifests itself in its pristine purity, its natural, innate freedom".

Shekhar (2002) in his book, 'Ethical Choices in Business' states that ethics could have a descriptive aspect (D), a normative aspect (N) and an analytical aspect (A) which is called DNA of ethics. He puts all of them in six bundles of ethical lessons from history to improve our integrated understanding.

Chakraborty (2005) in his book, 'Ethics in Management – Vedantic Perspectives' leads us to a different direction which he terms as 'Moral Business Ashram'. The word "Ashram stands for a serene and calm, sacred and simple locale in a wooded surrounding where individuals can practice self discipline and austerity for the consummation of a vow". He says that, "it reflects the ingrained Indian ethos most of our managers secretly nurse". Probably, "the ultimate idea is that an individual in Indian culture is the holyman".

Sharma (2007) in his book, 'New Mantras in Corporate Corridors', says the foundation of Indian corporate model is based on Indian Ethics and the Spirit of Development. He says, that "in sharp contrast to the western model of 'Protestant Ethics' and the 'Spirit of Capitalism', the Indian ethics model with its emphasis on holistic development provides us a new model for future development of human society", in which 'spirit of capital' or the 'artha' dimension of life is not negated but is driven by 'dharma or the ethics'. He further says that the "dharma

driven 'artha' or the 'spirituality guided materialism' represents a balanced approach to development". He adds, that, "Western ethos are rooted in individualism or the primary of self interest; eastern ethos favour 'lokasangraha' or the primary of collective interest and altruism; what required is a balance between the two".

In June, 2000 under the auspices of Global Ethics Foundation, Tübingen University, Germany, the former Prime Minister of England, Tony Blair, gave a clarion call as "community within a nation, interfaith understanding, and community as an international idea". He emphasized on "free trade is the key to prosperity for poor nations, debt relief and solidarity with poor nations, fight against crime and drug abuse on an inter nation basis, non destruction of environment, non-proliferation of nuclear threats and finally a great stress on revolution of information and biotechnology".

Austin (1961) in his article 'Code of Conduct for Executives' suggests a simple code of ethics for executives. He says; "Business Ethics, Corporate Morality, Corporate Ethics and similar phrases mean nothing. The public's opinion of the ethics of business and of the corporation is based entirely on the actions of individual business managers". He adds that code of conduct and other statutes only create an attitude of suspicion. If business management is to be a profession, it must meet the basic requirements of the professions. One of these requirements is an internally developed code of conduct that can be and is professed as the code by which the members of the profession will live. In his opinion, the code should call on the executive to assume the duty of: a) Placing the interests of this company before his private interests; b) Placing the interests of society before his own and his company's interests; and c) Revealing the truth in all cases of involvement.

### Objectives of the study

- a) To establish that the ethical management practices followed by MNCs in India are not always better than the Indian companies.
- b) To establish that Indian companies in many cases are better than the MNCs.
- c) To show that in some ethical factors, MNCs & Indian companies match in the ethical management practices.

### 1. Research Methodology

Five MNCs and five similarly placed Indian engineering companies are chosen. All the ten are Bangalore based. One from each of the following countries are chosen to make the five MNCs viz: Japan, USA, Germany, Sweden and Switzerland.

The questionnaire prepared for different functional areas like Senior Management, Middle Management and Staff & Employees was different even though a few commonalities existed. From each company five senior managers, ten middle level managers and fifteen of staff and employees are chosen. The feedback obtained are enumerated under the heading 'Research Findings' which is chapterised later.

### 2. Ethical Landscapes

The National Business Ethics Survey, 2005, made by Ethics Resource Centre, USA, suggests 18 critical elements of an organizational culture. These are the Ethical Related Actions pertaining to different levels of management and workers.

They are as follows:

Top Management	Communicates ethics as a priority Sets a good example of ethical conduct Keeps promises and commitments Provides information about what is going on Employees perceive that top managers are held accountable
Middle Management	Communicates ethics as a priority Sets a good example of ethical conduct Keeps promises and commitments Employees perceive that middle managers are held accountable for ethics violations.
Supervisors	Communicates ethics as a priority Sets a good example of ethical conduct Keeps promises and commitments Support employees in following organizational standards
Co-workers	Considers ethics while making decisions Sets a good example of ethical conduct Talks about importance of ethics Support employees in following organizational standards Employees perceive that non-managers are held accountable for ethics violations.

### 3. Research Findings

The research findings have been indicated under various Ethical factors. Higher figures in the tables are shaded.

#### Ethical Related Actions

There are a few Ethical Related Actions (ERAs) which every ethically managed company has to observe. The degree of shouldering of such responsibilities varies among employees, mid managers and senior managers. The degree of response of only the senior managers from MNCs and Indian companies for shouldering such responsibilities is indicated in the tabulations and the graphs (Refer: Table-1 & Graph-1).

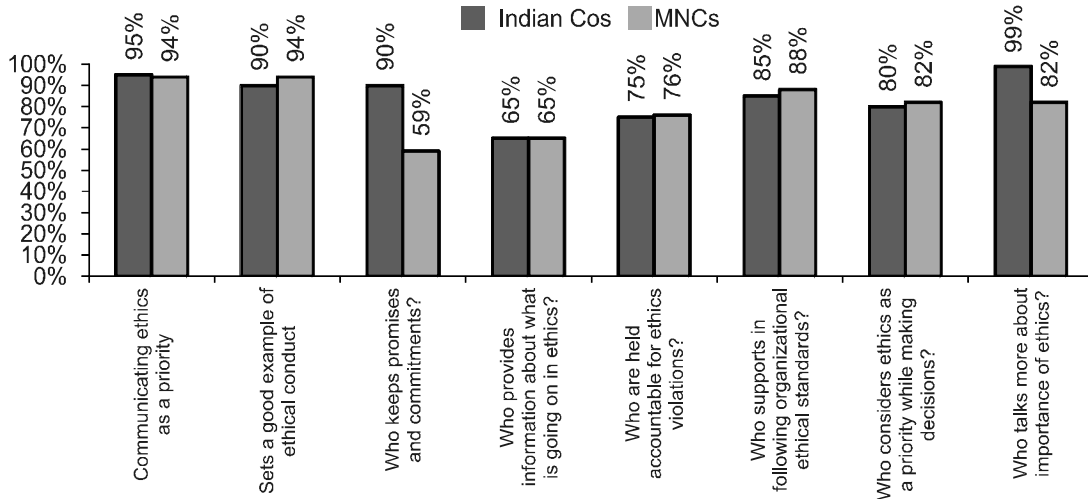
Responses for Ethical Related Actions (ERAs)

Table-1

Ethical Related Actions	Senior Management	
	Indian Cos	MNCs
Communicating ethics as a priority	95%	94%
Sets a good example of ethical conduct	90%	94%
Who keeps promises and commitments?	90%	59%
Who provides information about what is going on in ethics?	65%	65%
Who are held accountable for ethics violations?	75%	76%
Who supports in following organizational ethical standards?	85%	88%
Who considers ethics as a priority while making decisions?	80%	82%
Who talks more about importance of ethics?	99%	82%

Source: Primary Data

Graph-1



**6.2 Desired Organisational Cultures**

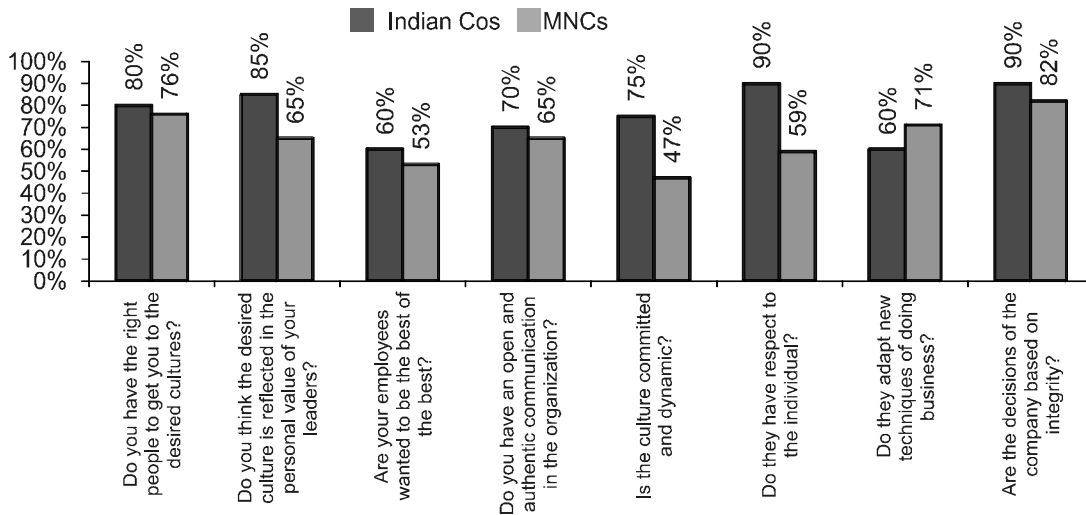
Among the eight different factors of cultures, the Sr.Managers, were asked to indicate the type of culture existing in their companies (Refer: Table-2 & Graph-2). The responses are as follows:

Table-2

Type of cultures	Senior Management	
	Indian Cos	MNCs
Do you have the right people to get you to the desired cultures?	80%	76%
Do you think the desired culture is reflected in the personal value of your leaders?	85%	65%
Are your employees wanted to be the best of the best?	60%	53%
Do you have an open and authentic communication in the organization?	70%	65%
Is the culture committed and dynamic?	75%	47%
Do they have respect to the individual?	90%	59%
Do they adapt new techniques of doing business?	60%	71%
Are the decisions of the company based on integrity?	90%	82%

Source: Primary Data

Graph-2



**6.3 Ethical Behaviour of Senior Managers**

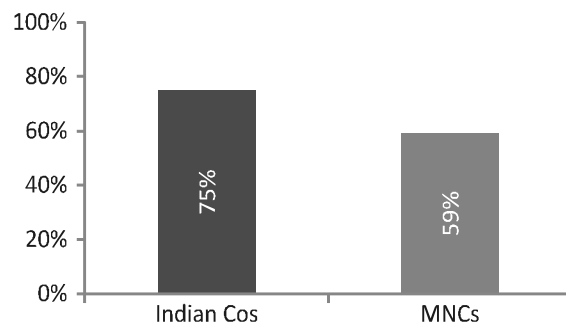
The responses of the senior managers were obtained to know if the ethical behavior pervades through all levels of corporate hierarchy in the organization (Refer: Table-3 & Graph-3). The responses of the senior managers are as follows:

Graph-3

Table-3

Senior Management	
Indian Cos	MNCs
75%	59%

Source: Primary Data



**6.4 Factors for Ethical Culture**

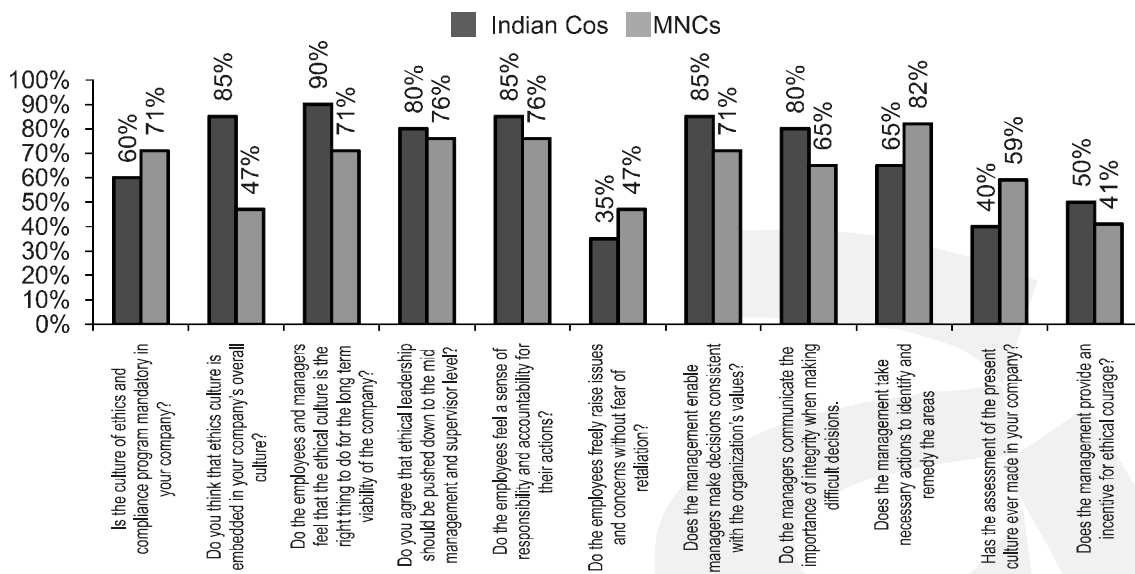
Some of the factors which create an ethical culture in an organization are indicated (Refer: Table-4 & Graph-4). Percentages of senior level managers who agree with the views are given.

Table-4

Ethical Culture Factors	Senior Management	
	Indian Cos	MNCs
Is the culture of ethics and compliance program mandatory in your company?	60%	71%
Do you think that ethics culture is embedded in your company's overall culture?	85%	47%
Do the employees and managers feel that the ethical culture is the right thing to do for the long term viability of the company?	90%	71%
Do you agree that ethical leadership should be pushed down to the mid management and supervisor level?	80%	76%
Do the employees feel a sense of responsibility and accountability for their actions?	85%	76%
Do the employees freely raise issues and concerns without fear of retaliation?	35%	47%
Does the management enable managers make decisions consistent with the organization's values?	85%	71%
Do the managers communicate the importance of integrity when making difficult decisions?	80%	65%
Does the management take necessary actions to identify and remedy the areas ?	65%	82%
Has the assessment of the present culture ever made in your company?	40%	59%
Does the management provide an incentive for ethical courage?	50%	41%

Source: Primary Data

Graph-4



### 6.5 Drawbacks in Corporate Cultures

Various factors exist which contribute to the drawbacks & weaknesses in a corporate culture & control environments which in turn increase the risk factors and further create the behavior standards gap (Refer: Table-5 & Graph-5). Respondents who agree with this view are as follows:

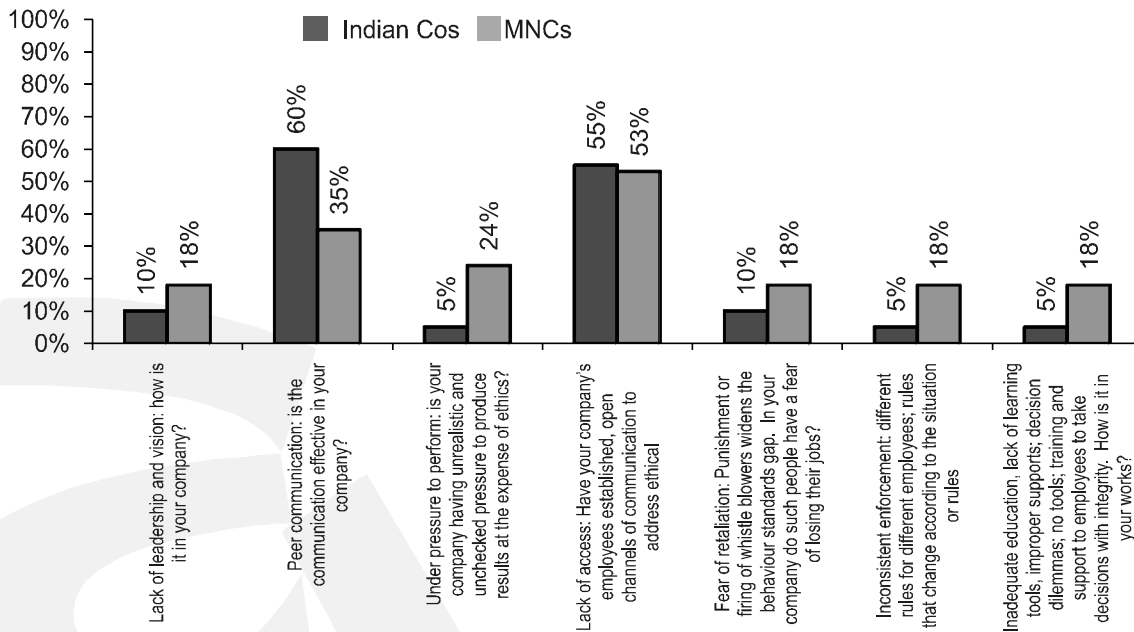
Reasons for behavioral standards gap

Table-5

	Senior Management	
	Indian Cos	MNCs
Lack of leadership and vision: how is it in your company?	10%	18%
Peer communication: is the communication effective in your company?	60%	35%
Under pressure to perform: is your company having unrealistic and unchecked pressure to produce results at the expense of ethics?	5%	24%
Lack of access: Have your company's employees established, open channels of communication to address ethical	55%	53%
Fear of retaliation: Punishment or firing of whistle blowers widens the behavior standards gap. In your company do such people have a fear of losing their jobs?	10%	18%
Inconsistent enforcement: different rules for different employees; rules that change according to the situation or rules	5%	18%
Inadequate education, lack of learning tools, improper supports; decision dilemmas; no tools; training and support to employees to take decisions with integrity. How is it in your works?	5%	18%

Source: Primary Data

Graph-5





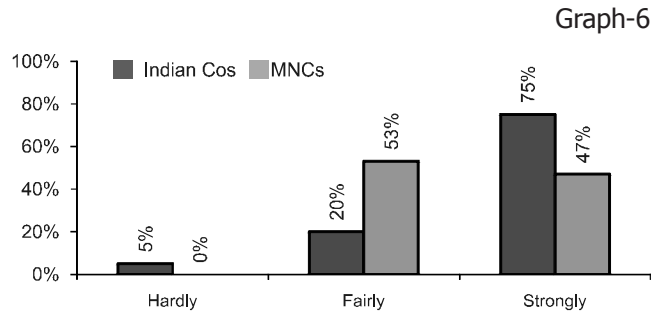
### 6.6 Tone from the Top

For every employee to observe an ethical conduct 'a tone from the top' is necessary (Refer: Table-6 & Graph-6). The responses are as follows:

Table-6

	Indian Cos	MNCs
Hardly	5%	0%
Fairly	20%	53%
Strongly	75%	47%

Source: Primary Data



### 6.7 Embed Culture for Compliance

For building ethical culture, the respondents believe 'strongly' in observing the following (Refer: Table-7 & Graph-7):

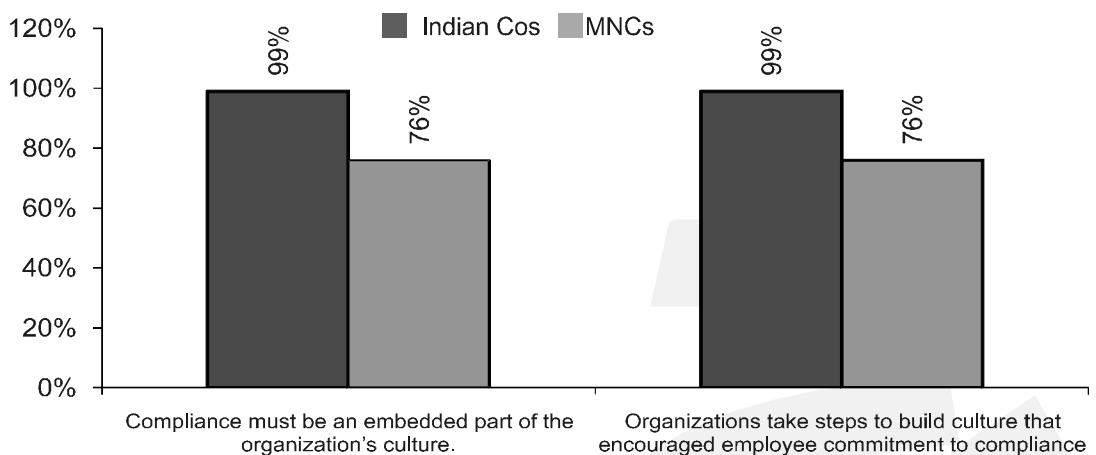
Compliances & ethical cultures

Table-7

	Senior Management	
	Indian Cos	MNCs
Compliance must be an embedded part of the organization's culture.	99%	76%
Organizations take steps to build culture that encouraged employee commitment to compliance	99%	76%

Source: Primary Data

Graph-7



**Ethical Values in Organisations**

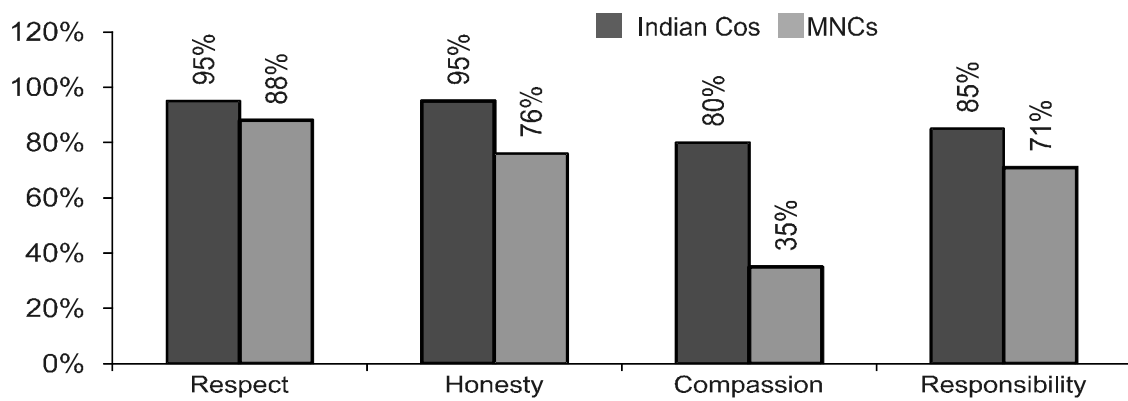
The perception of the Respondents about the most accepted and identified ethical values in an organization could be different (Refer: Table-8 & Graph-8). Responses of Senior Managers are indicated below:

Table-8

	Senior Management	
	Indian Cos	MNCs
Respect	95%	88%
Honesty	95%	76%
Compassion	80%	35%
Responsibility	85%	71%

Source: Primary Data

Graph-8



**6.9 Quality of Work life (QWC)**

Quality of work life in MNCs & Indian companies could be different, and so also the feeling of Senior Managers about the QWL of their companies (Refer: Table-9 & Graph-9). The responses are as follows:

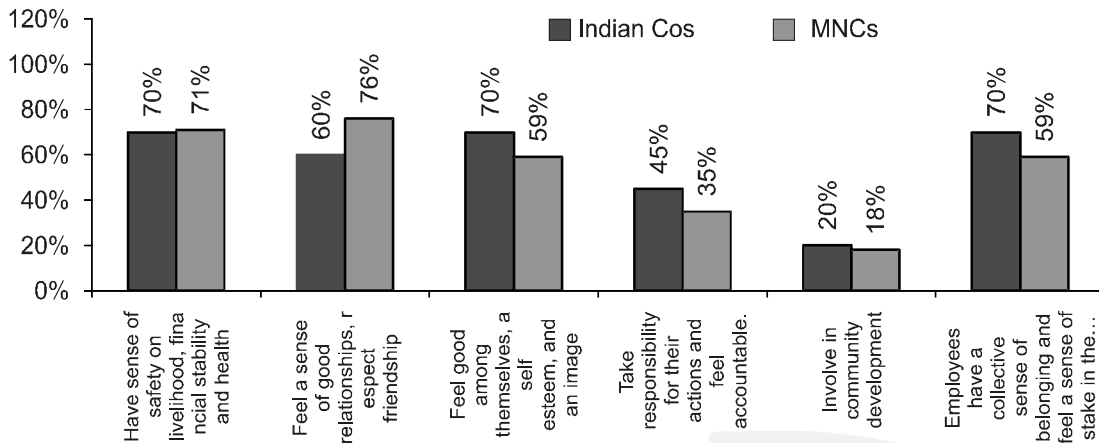
**Quality of work life**

**Table-9**

	Senior Management	
	Indian Cos	MNCs
Have sense of safety on livelihood, financial stability and health	70%	71%
Feel a sense of good relationships, respect friendship	60%	76%
Feel good among themselves, a self esteem, and an image	70%	59%
Take responsibility for their actions and feel accountable.	45%	35%
Involve in community development	20%	18%
Employees have a collective sense of belonging and feel a sense of stake in the organization	70%	59%

Source: Primary Data

Graph-9



**6.10 Top Management – Guardians of the Company**

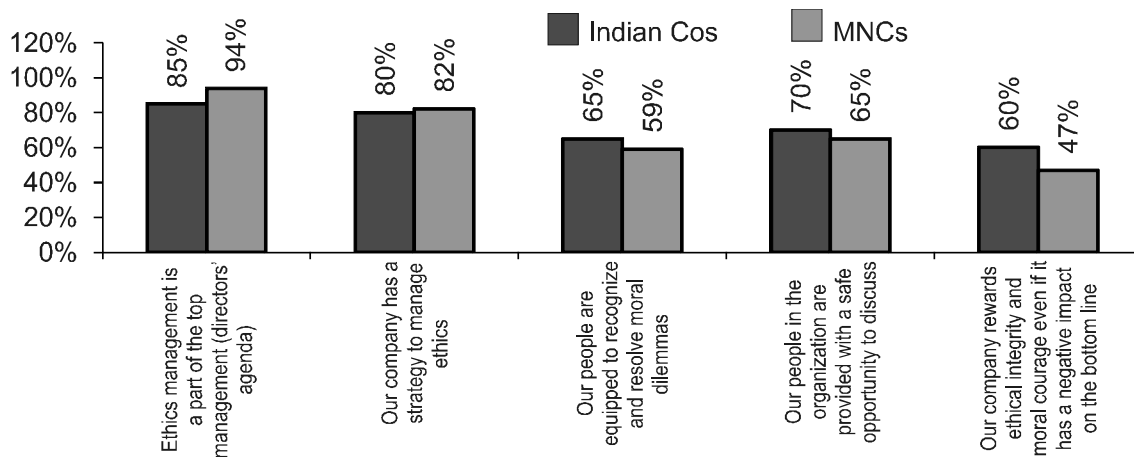
Directors/Top Management is essentially guardians of a company. Besides maximizing return on investment, good governance demands that directors/senior management do everything in their power to protect shareholders assets through ethical management practices (Refer: Table-10 & Graph-10). The responses by senior and mid managers to some of the practices of top management are as follows:

**Perception of 'Top Management' is guardian of a company**

**Table-10**

Management Practices	Senior Management	
	Indian Cos	MNCs
Ethics management is a part of the top management (directors' agenda)	85%	94%
Our company has a strategy to manage ethics	80%	82%
Our people are equipped to recognize and resolve moral dilemmas	65%	59%
Our people in the organization are provided with a safe opportunity to discuss	70%	65%
Our company rewards ethical integrity and moral courage even if it has a negative impact on the bottom line	60%	47%

Graph - 10



**6.11 Existence of Code of Ethics**

Among the best practices in ethics management existence of Code of Ethics is considered to be one of the important parameters:

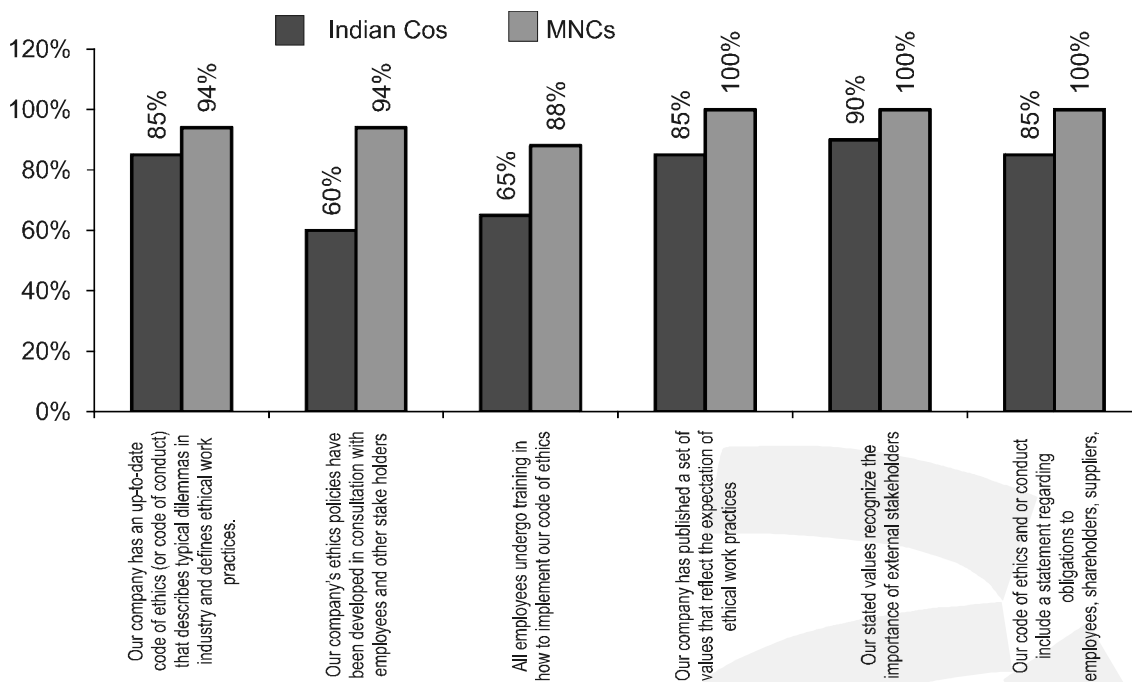
**Existence of Code of Ethics**

**Table-11**

	Senior Management	
	Indian Cos	MNCs
Our company has an up-to-date code of ethics (or code of conduct) that describes typical dilemmas in industry and defines ethical work practices.	85%	94%
Our company's ethics policies have been developed in consultation with employees and other stake holders	60%	94%
All employees undergo training in how to implement our code of ethics	65%	88%
Our company has published a set of values that reflect the expectation of ethical work practices	85%	100%
Our stated values recognize the importance of external stakeholders	90%	100%
Our code of ethics and or conduct include a statement regarding obligations to employees, shareholders, suppliers.	85%	100%

Source: Primary Data

Graph-11



**6.12 Ethics in HR management** (Refer: Table-12 & Graph-12).

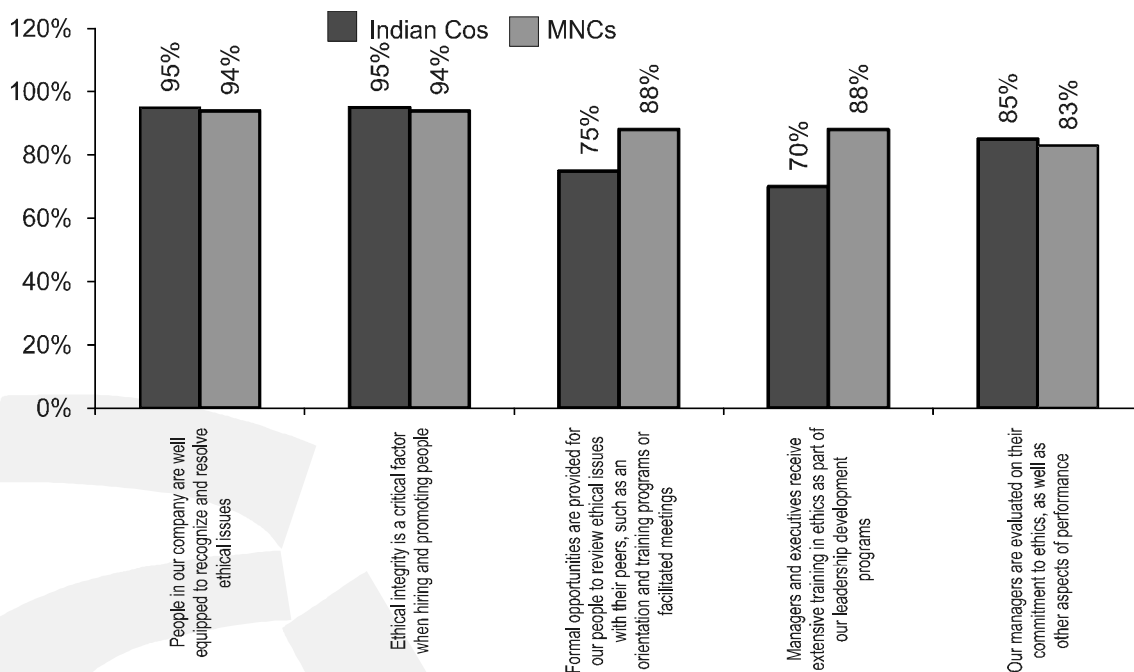
Senior Managers' responses on various ethical practices on HR Management are given below:

Table-12

	Senior Management	
	Indian Cos	MNCs
People in our company are well equipped to recognize and resolve ethical issues	95%	94%
Ethical integrity is a critical factor when hiring and promoting people	95%	94%
Formal opportunities are provided for our people to review ethical issues with their peers, such as an orientation and training programs or facilitated meetings	75%	88%
Managers and executives receive extensive training in ethics as part of our leadership development programs	70%	88%
Our managers are evaluated on their commitment to ethics, as well as other aspects of performance	85%	83%

Source: Primary Data

Graph-12



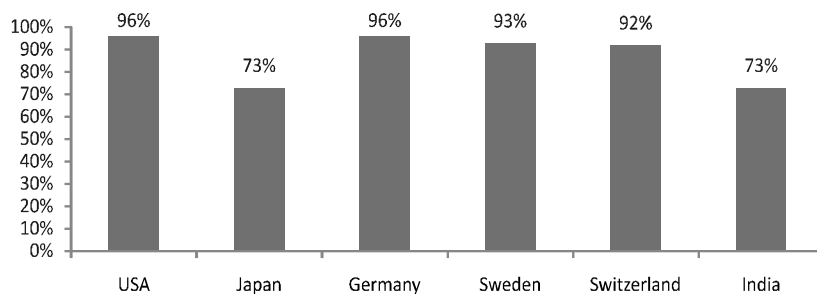
**6.13 Publication and Communication of Values**

Publication of a set of values that reflect the expectation of ethical work practices in an organization is necessary (Refer: Table-13 & Graph-13). The responses from each MNC and a combination of Indian companies is indicated below:

Publication of a set of values: Table-13

Factories of:	USA	Japan	Germany	Sweden	Switzerland	India Combined
	96%	73%	96%	93%	92%	73%

Source: Primary Data



Graph-13

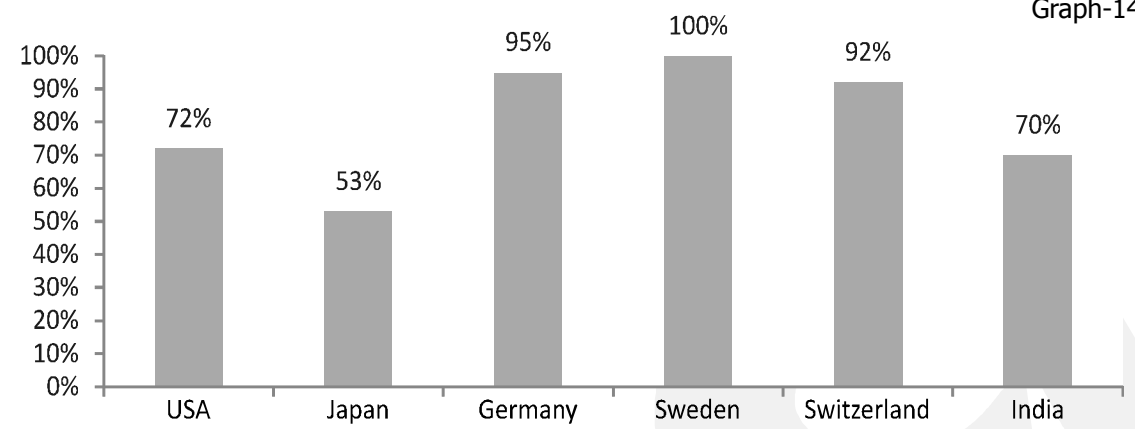
**6.14 Ethical Commitments**

'Evaluation of managers is made based on their commitments to ethics' (Refer: Table-14 & Graph-14). The responses of each MNC and a combination of all Indian companies is indicated below:

Evaluation of managers Table-14

Factories of	USA	Japan	Germany	Sweden	Switzerland	India Combined
	72%	53%	95%	100%	92%	70%

Source: Primary Data



Graph-14

**6.15 Pressures to Compromise on Ethical Behaviours**

Pressure exists in organization to compromise on ethical behaviours (Refer: Table-15 & Graph-15). The responses are as follows:

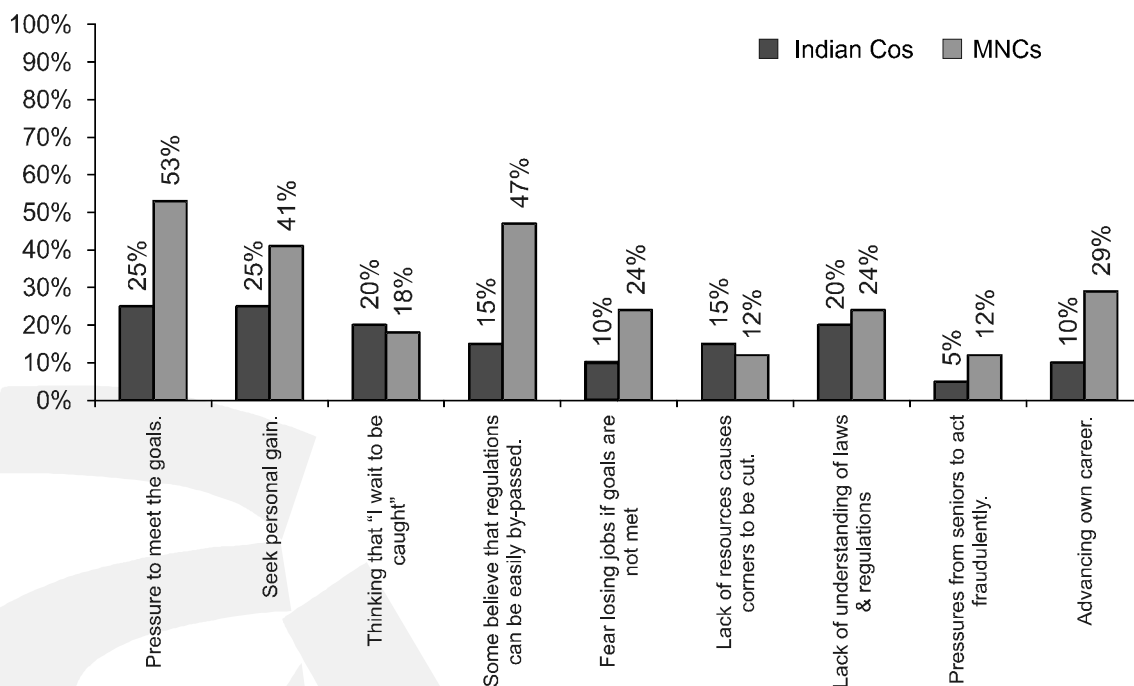
Pressures to compromise on ethical behaviours:

Table-15

	Senior Management	
	Indian Cos	MNCs
Pressure to meet the goals.	25%	53%
Seek personal gain.	25%	41%
Thinking that "I wait to be caught"	20%	18%
Some believe that regulations can be easily by-passed.	15%	47%
Fear losing jobs if goals are not met	10%	24%
Lack of resources causes corners to be cut.	15%	12%
Lack of understanding of laws & regulations	20%	24%
Pressures from seniors to act fraudulently.	5%	12%
Advancing own career.	10%	29%

Source: Primary Data

Graph-15





## 1. Analysis of the Research

### 1.1 Ethical Related Actions (ERAs):

- Eight Ethical Related Actions are indicated.
- MNCs score higher percentages in four out of the eight ERAs.
- Indian companies score higher percentage in three ERAs.
- In the ERA, 'Who provides information about what is going on in ethics?' the percentages are equal.

### 1.2 Desired organization cultures:

- Eight different organization cultures are indicated.
- In seven out of the eight cultures, the Indian companies show a higher percentage.

### 1.3 Factors for Ethical Culture:

- Eleven different factors are indicated for ethical cultures.
- In four of the factors, MNCs have a higher percentage.
- In seven of the factors Indian companies have scored better.

### 1.4 Drawbacks in Corporate Cultures:

- Seven different drawbacks in corporate cultures are indicated
- MNCs have higher drawbacks in five out of seven.
- Indian companies have higher drawbacks in two out seven.

### 1.5 Tone from the Top:

- 75% of the respondents from Indian companies feel strongly that there is a good 'Tone from the Top'
- Only 47% of MNCs feel as above.

### 1.6 Embed Culture for Compliance:

- In both the factors of compliances, namely 'embedding compliance as a part of the organization culture' and 'building

cultures that encourage employee commitment to compliance', the Indian companies score a higher percentage.

### 1.7 Ethical Values in Organisations:

- In all the identified ethical values in an organization, the Indian companies score a higher percentage.

### 1.8 Quality of Work life:

- In having 'a sense of safety on livelihood, financial stability and health' and having 'a sense of good relationships, respect and friendship' the senior managers have responded that the MNCs' are better.
- Senior managers respond that in the areas like, 'feel good among themselves, a self esteem and an image', 'take responsibility for their actions and feel accountable', 'involve in community development' and 'employees have a collective sense of belonging and feel a sense of stake in the organisation', the Indian companies are better.

### 1.9 Top Management – Guardians of the Company:

- In two of the perceptions under 'Top Management – Guardians of the company' the MNCs score better.
- In the other three, the Indian companies are better.

### 1.10 Existence of Code of Ethics:

- In all the factors under the code of ethics, the senior managers opine that the MNCs are better.

### 1.11 Ethics in HR Management:

- In three out of the five factors the Indian companies are shown to be better, while in two factors the MNCs are better.

### 1.12 Publication and Communication of Values:

- Under this particular ethical management practices, the combined values of Indian companies are compared with the individual values of the company chosen

from each of the country studied by the researcher.

- Researcher indicates that the companies from USA, Germany, Sweden & Switzerland are better than Indian companies. Indian companies are better than the Japanese company.

1.13 Ethical Commitments:

- The Indian companies have a higher percentage compared to the Japanese

company and the companies from USA, Germany, Sweden and Switzerland score better than Indian companies.

1.14 Pressures to compromise on Ethical Behaviours:

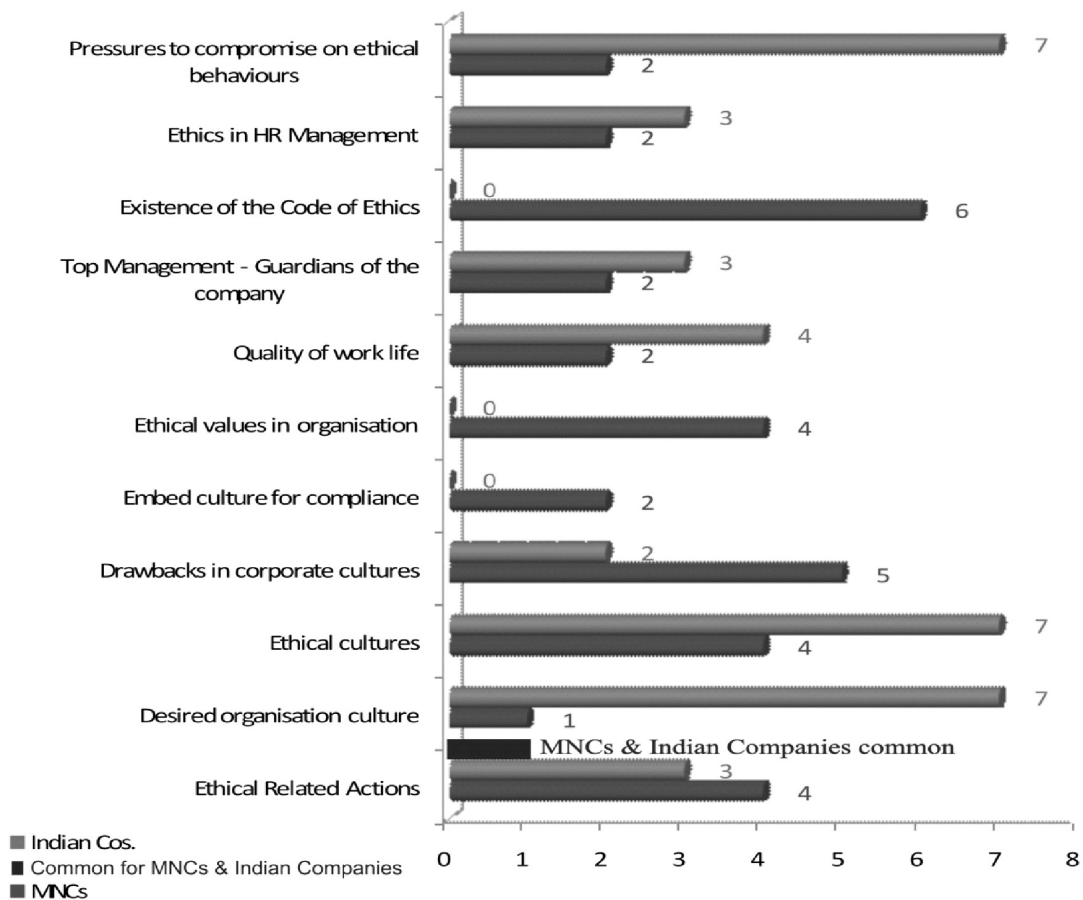
- Under this ethical practice, a higher percentage indicates a poor ethical management practice. The Indian companies are shown to be better in all the factors except in, 'lack of resources causes corners to be cut'.

**Conclusions**

The following graph summarizes the analysis of some of ethical practices discussed earlier.

Graph-16

Ethical Practices	Number indicates number of factors in which either the MNCs or the Indian companies have a better percentage
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The findings and analysis as above prove that:

- The Ethical Management Practices of MNCs are not always better.
- In some of the ethical practices, MNCs are better.
- In some other ethical practices, Indian companies are better.
- In very few cases, the ethical practices of MNCs and Indian companies match with each other.

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