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Ethical Issues in Indian Business: Reasons for Erosion of Ethical Values

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Abstract—*In today's world of globalization, companies of every size face a host of ethical issues. These issues plague the business world with ethical dilemmas and challenge the way very essence of conducting business on fair grounds. Where one could easily find numerous examples worldwide of corporate/ business scams, whether state-owned or private, of lately, India seems to have become a breeding ground of the biggest of business scams. Businesses have the responsibility to develop codes of conduct and ethics that every member of the organization must abide by and put into action. Discussing about ethics and moral values, issues such as integrity and trust are the first to come to mind, but more complex issues like accommodating diversity, decision-making, compliance and governance need more attention as these get compromised the most when moral values are twisted or diverted in the pursuit of selfish interests. There are a number of different ways in which ethics could influence performance of business, which in turn can influence at various levels in the complex society. Ethical or unethical behavior of businessmen can have an impact on the investors and their capability to invest in their businesses. The present paper provides a brief account of Indian Corporate Governance, Business Ethics, Ethical Issues in Business. The main reason why most of the companies indulge in unethical business practices is to maximize their profits. However, rubbing customers and other stakeholders the wrong way in the quest to maximize profits can be self-defeating and lead to loss of valuable patronage. The objective of the paper is to focus on the impact of unethical business practices on business in India, various reasons which can be accorded to the same and what is the way forward.*

Keywords*: Business Ethics, Corporate Governance, Ethical Issues*

1. INTRODUCTION

Business ethics are an indispensable part of corporate governance. Where the latter is seen as the aggregate of conventions, procedures, regulations, and policies, which guide the way a firm is directed and controlled. Business ethics mandate that for effective management of the relationships among the many stakeholders involved in the organization, and the attainment of its goals ethical standards must be set, monitored and maintained. The rights of employees, suppliers, customers, and the community at large cannot in the long term be protected and ensured if the firm's directors and executives act, and allow others to act, in ways that are less than ethical.

Increasing globalization of businesses has also increased emphasis on doing business ethically. In a highly diverse and competitive environment, managers are faced with difficult situations and in order for them to act ethically, they are expected to have a well-developed moral imagination. The primary objective, therefore, of a corporation is to increase shareholder value. Successful corporations must operate within society; to that end, they must maintain the values and norms of the society in which they operate.

2. BUSINESS ETHICS AND CORPORATE GOVERNANCE

The term ethics describes a set of principles that provide a framework for conduct. Ethics is all about rules governing the way in which we determine what is 'right' or 'wrong', 'good' or 'bad'. The golden rule of ethics is often termed as 'Ethics of Reciprocity', which states that "Do unto others as you would have them to unto you" i.e. "treat others as you would like to be treated, if you were them".

Business Ethics is concerned with the application of ethics to the business activities. Ethical business behaviour facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity.

Corporate Governance is a set of systems and practices to ensure that the affairs of the business are being managed in a way which ensures accountability, transparency, fairness in all its transactions in the widest sense and meet its stakeholders aspirations and societal expectations. In the new environmental context, corporate governance is no longer a luxury but a necessity. The quality of governance has become one of the key tests and one of the major drivers of shareholders value. Better governance facilitates easier access to capital from domestic market. A transparent regulatory framework and better disclosure system are crucial for attracting foreign investors as well. In India, corporate governance has assumed significance and urgency due to the changing profile of corporate ownership, preferential allotment of shares to promoters, increasing flow of foreign capital and dismantling of control that hitherto provided protective cover to poorly managed corporates.

3. ETHICAL ISSUES IN BUSINESS

The issues of business ethics have become increasingly important in the globalized business environment where comparative advantage and competitive edge are central to business decision-making. In a highly diverse and intensely competitive environment, managers are faced with difficult situations and often have to take tough decisions, which are not only right, fair, and proper (Hosmer, 1991) but also effective (Hosmer, 2000). Managements are faced with ethical issues frequently and with increasing pressure on individuals and businesses both for ethical behaviour (Ford and Richardson, 1994 and Trevino, 1984), they are expected to have a well-developed moral imagination (Werhane, 1998) in order for them to act ethically. An ethical dilemma exists when two or more values are in conflict. Jackson (1996:8) suggests that there are two kinds of difficulties we face—

- Difficulty of identification, which is recognizing what is your duty in a particular situation, and
- Difficulty of compliance, which is doing your duty, once you know what it is (1996:8).

This means that when faced with an ethical issue, first and foremost, it is the ability to recognize the moral issue in order to make ethical decisions. Next come the choices that one makes in order to act ethically. A number of factors may influence the ethical decision making process. According to Hunt and Vitell (1986) the individual ethical perception of the situation is influenced by a sum of cultural, organizational and industrial environment along with personal experiences. For Trevino (1986), in organizational context both the individual and situational factors affect the decision-making.

3.1 Examples of Ethical Issues in Business

Reputation is a company's biggest asset so you would think companies would avoid engaging in shady business practices. However, many large corporate find their reputations and credibility destroyed due to practices that are harmful and illegal.

3.1.1. Walmart

The standard business practices of "bigger is better" does not seem to hold true when it comes to ethics, for sheer size by itself raises allegations of poor business ethics, as seen in the case of Wal-Mart.

Wal-Mart very often finds itself slapped with lawsuits that accuse it of predatory pricing, or pricing products too low to drive competition out of business and gain a monopoly in local markets. Among several lawsuits, the one in 2003 struck, where Germany's High Court ruled Wal-Mart's low-cost pricing strategy "undermined competition."

3.1.2. CitiBank

Deciding to spend $50 million on a new private jet after taking $45 billion in taxpayer funds to stay afloat, as Citibank did is a textbook example of bad business ethics. To make matters worse for CitiBank, CEO Vikram Pandit lied to Congress that he received a compensation of one million a year when the actual figure was $11 million.

4. INDIAN SCENARIO

Much has been written about the benefits of doing business in India — low input costs, easy access to labor and a massive consumer base. Less has been said about the ability of companies in India to thrive by bending rules, greasing palms and broadening ethical boundaries. At a time when the issue of corruption threatens the stability of the Indian government and scandals unearthed in sectors from sports to telecommunications total tens of billions of dollars, it is becoming increasingly critical for multinational managers to ask whether business success in India comes at an ethical cost.

India's lax ethical standards, coupled with a rigid bureaucracy and weak enforcement mechanisms, have certainly hurt the country in many ways. The causes of this fiscal pain can be seen at the government, corporate and individual levels. As Ratan Tata, chairman of the Tata Group, observed, "If you choose not to participate in corruption, you leave behind a fair amount of business."

Scandals in the political and business spheres seem to have become endemic in India. The infamous "2G" scandal of 2008, in which the government granted telecommunication licenses on a first-come-first-served basis instead of through an auction, is estimated to have cost taxpayers US$40 billion. Lax corporate governance has also hurt investor confidence, as illustrated by the revelation of questionable accounting practices at Satyam Computer Services. This 2009 scandal saw US$70 million in real assets transformed into US$1 billion in imaginary assets and sent the Bombay Stock Exchange tumbling 5% in a single day.

Goldman Sachs India admitted that growth to date has been slow, as the company's priority has been to protect its reputation by dealing only with clients with the highest ethical standards. The German firm Enercon, the world's fifth-largest wind turbine manufacturer, was forced to walk away from its US$566 million joint venture after being intimidated by authorities and failing to find legal recourse to what it termed "government-abetted theft."

In a market economy, the customer is supposed to be the 'king' who determines what to produce, how to produce and by whom to produce. The economic wheel moves around his whims and fancies. Businesses which disregard the wishes of their customers fade away into oblivion, says management books. Yet, customers across all regions of India are taken for a ride by unethical business practices.

In 2011, India received only 6.5 million foreign tourists as compared to 57 million in China, according to World Bank. Forget China, India could not match even a smaller country, Malaysia (25 million). Given our diverse geographies and rich cultural heritage, this figure is shamefully low by any standard. From airport to taxis, hotels, shops and tour guides – all try to fleece innocent tourists (more so if they are foreigners) in a country that claims to practice *atithi devo bhava (*a guest is like God). It has tarnished India's image as a favoured tourist destination. Growing sexual assaults against women tourists worsen the already bad situation.

The story of housing sector is no different. Raising prices in a period of slackening demand to retain investor interest, default on features or delivery time and unhindered use of black money in the purchase and sale of properties is driving middle class home buyers out of the market. Besides, exploitation of hapless customers may prompt tougher regulation from government – such as the proposed housing regulator with stringent penalties for defaulting builders. That will add to the cost of doing business, force a hike in prices and ultimately lead to erosion of sales and profits.

Furthermore, Indian literary history fully embraces the concept of noble ends justifying dubious means. Three texts intrinsic to Indian culture and philosophy help to explain the current business landscape: the epics *Ramayana* and *Mahabarata* and the economic treatise *Arthshastra*. In both the *Ramayana* and the *Mahabharata*, even gods resort to deceit and trickery to accomplish their ends. In addition, the *Arthshastra* is often cited publicly by prominent politicians and businessmen as the foundation of their strategic thought. Written to advise a king on statecraft, economic policy and military strategy, the work advocates the use of deception and sometimes brutal measures for the common good.

5. REASONS FOR EROSION OF ETHICAL VALUES IN INDIA:

When questioned about their unethical practices, many companies claim that the conditions in India do not allow them the luxury of being completely ethical. There is hardly an institution, which has not at some time or the other been either involved or suspected of some foul play. Even companies which started off with intentions to do business in an ethical manner have had to compromise their principles due to the highly politicized and beauraucratic business environment in India.

According to Aga (1994) there are two types of corruption: political corruption (money paid for favors done) and administrative corruption (money paid for doing what should have been done in the first place). Examples of administrative corruption include "gifts" to the Factory Inspector, Boiler Inspector, Pollution Control Board Inspectors, and the assessors for customs, excise, income tax, sales tax and octroi. It is this administrative corruption, which most companies claim to be forced onto them from time to time.

Worldwide experience shows that when the rates of taxation are high, the proportion of persons/businesses evading taxes is very large. 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. The complexity of rules with different rates of taxation on different classes of goods gave a lot of discretion to the tax collectors. This leads to tax evasion through collusion between the tax payer and the tax collector.

It is a common belief among most Indians that government officials are corrupt, the legal system is ineffective and that bribing and ingratiating are accepted practices. A study on the ethical attitudes of Indian managers conducted by Arun Monappa and published in 1977 (cited by Cryiac (2000)) reported that business executives considered company policies, bad competitor practices, unethical industry climate, and corruption in government as the major obstacles to ethical behavior.

The culture of improvisation or *jugaad* also justifies circumventing the rules for a quick or profitable outcome, and that ultimately fuels and supports corrupt business practices. Clearly "black" or illegal acts dominate the headlines –the controversial allocation of telecom licenses or coal blocks, for instance – but the mechanisms that allow this corruption to exist often fly below the radar.

6. THE WAY FORWARD

Graft in India is damaging the economy. The country needs to get serious about dealing with it. India ranks ninth among 41 countries in bribery and corrupt practices in businesses, according to the findings of a recent survey. That said, change is very much part of the zeitgeist in India. It will not come about quickly or particularly easily, but the rules of the game are starting to change. Whether the catalyst is popular indignation at poor governance, a tightening in domestic anti-corruption legislation, or the positive example being set by some of India's multinational brands, the overarching goal seems to be one of greater accountability.

People run business and it's the people who make the business practices ethical or unethical to suit their choices. So it becomes a pressing point that to build businesses on solid moral grounds people should themselves become ethical. Businesses must consider designating an ombudsperson in charge of handling employees' informal concerns pertaining to workplace ethics. All the organizations must also consider introducing an ethics hotline, which is a confidential service. Employees may contact whenever they encounter workplace dilemmas that put them into uncomfortable or threatening positions. Confidential hotlines are an effective way to assure employees' anonymity, which is a concern for employees whose alerts are considered "whistleblowing" actions.

To inculcate solid work ethics amongst the business and corporate houses, great emphasis must be put on establishing procedures that encourage ethical behavior. Pre-employment personality tests can serve as precursor to determine a candidate's capacity for wrongdoing. Cheating and idea-stealing can be discouraged drastically by instituting a zero-tolerance policy for those who break the rules and be sure business's plan clearly states that unethical means do not justify the ends.

Additionally, government can exercise a great amount of control to curb unethical business practices through the enforcement of anti-corruption laws. India has the capacity to effect a big change with respect to the same with its laws, among others, like The Prevention of Money Laundering Act, 2002; Right to Information Act, 2005; The Lokpal and Lokayuktas Act, 2013 which may prove instrumental in curbing the menace of unfair business practices, only if these laws are strictly enforced.

Furthermore, it is incumbent on the multinational managers to realize that business in India is held to a different set of ethical rules than those found in the West. Today, success in India comes from playing by these rules. In the future, it will be up to the multinational managers to recognize that India is moving ponderously toward a new ethical equilibrium. The nation's intersection of business and ethics is shifting, and the India trade-off likely will never look the same again.

And it will be up to the multinational managers to realize that, while the direction of this shift is inevitable, its magnitude is certainly more complicated to ascertain. Will it be a seismic shift or a minor tremor? Will it reshape boundaries or modify the status quo only slightly?

At the end of the day, the answer lies within the Indian businessman. So much of what has held him back has propelled him forward: He has been both burned and forged at the same crucible. What new equilibrium will benefit him, and his nation, the most? And will the policymakers be able to understand and be willing to execute whatever is necessary to reach this target?

Only with time will we be able to observe this dilemma's resolution. The multinational managers would do well to pay heed, lest they leave behind a fair amount of business.

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