THE REVOLUTION ON THE FACE OF CORPORATE ETHICS AND LEVERAGING CORPORATE GOVERNANCE IN INDIA

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ABSTRACT

The paper tries to answer the reasoning and the way ahead for corporate governance and ethical climate within a company and the display of a uniform code of conduct in the business environment of the nation. The objectives were to find out unethical behaviour in the formal economic sector. The major answer to this could be to bring *"clarity"*.A set off governing guidelines need to be formed for the stakeholders to protect themselves and the insiders of the company i.e the *employees*. Therefore, to find any specific ethical violations and their analysis. Additionally, the interplay between corporate governance and ethical behaviour. 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. Further, a possible set of recommendations or such unethical behaviour. There is a serious lack of a **"National Code of Business Ethics"** in the country. As a result, what one company country considers unethical might not be unethical for another. The demand requires additions which are compatible with the value judgments of society and utilitarianism with the increasing professional corruption. And all of this can only stem from good leadership. The business community has now clearly understood the necessity and importance of business ethics through the continuous collapse and the dreadful consequences it brings with it. The delay in legal amendments along with parallel developed technological and social advancements can bring the real utmost required revolution.

Keywords: Corporate Governance, Business Ethics, Ethical Climate, Frauds, businesses

[A] Introduction

Corporate Ethics and Business Ethics, both terms are interchangeably used. Topics which have been trending in the business world in the last decades. First discussed in the 1970s, it sprouted owing to increasing corporate frauds and unethical behaviour of corporate bodies. Such an aspect was introduced to reduce such issues, even if not a complete reduction. Government and private bodies were made aware of its significance. And its negative effects on multiple stakeholders at various levels.

With the increasing rise of technology all around, the image of a company becomes an aspect of immense worth. Especially, due to the extort coverage by the media. Corporations are pressurised to maintain a balanced and approachable image in front of their potential customers. But such a situation does not take away the fact that even after such relevance, we encounter several such instants on a regular basis where the conduct of executives and related shareholders have time and again become a matter of concern. This erupts the need for *"Corporate responsibility"*. Business and ethics on numerous levels go hand in hand but people still refuse to hold them exclusively. The past motives have spent morality to earn business success.[1]

[B] Context on Corporate Ethics

Many still argue that the growth of a company is of utmost importance for its sustainability. But the outputs these days have shown very different objects. 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"[2] An ethical company attracts more customers, investment, popularity, and employees and establishes an untarnisable reputation. Now, what we witness is a swift focus from *"only profits"* to *"profits & society"*.

With all the efforts and inputs, the question of "Whether" has been replaced by *"How"* economics and ethics be brought together. The approaches can range all from philanthropic to strategic and institutional.

Corporate Social Responsibility (CSR), Corporate Governance and *Business Ethics* all taken together attribute to the general ethics in the corporate world. There are several reasons which

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[1] ZIMMERLI P.1 (Richter & Holzinger, 2007).
[2] *Id*

can attribute to the unethical behaviour of companies like weak regulations, inappropriate sanctions, lack of right interpretation and unacceptable work ethics. This is where prominent business ethics come, to mend these gaps which could prevent companies from falling into the hole of unethical conspiracy. Hence, what we can term it is *"bridging the gap"*.

[C] What is Business Ethics?

A conduct, custom or habit. Moral philosophy which deals with judgement, conduct, character etc. [3] Study morality?[4] Relationship between goals of business and society?[5]

Under all the above definitions, we find that defining "business ethics" is varies and debatable.

So, what could be a loose joining of points is that business ethics is derived from a code of conduct, culture, laws and the country where the organisation is located.

It is not a very concrete concept.[6] It varies between company, culture and country. There is no universal source to it.

Therefore, here is a list of ethical principle generally witnessed in Indian companies :

1. Honesty - Honest and remaining truthful in the dealings. Keeping intentions pure and not trying to mislead or deceive through misrepresentations.

2. Integrity - Personal integrity comes from having the courage to think calmly and think right under situations of great pressure. Honing one's own principles, beliefs and rights. No sacrifice of basic foundations of one's principles.

3. Trustworthy - Taking an effort to fuel any misapprehension and keeping the spirits high when it comes to commitments. No justifications and explanations for subjects.

4. Loyalty - Remaining Fidel and loyal to the person or institution under your responsibility. Not disclosing confidential information could be one such example. Taking independent judgment keeping in mind professionalism, and being unharmed from undue influences.

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[3] GHOSH P. 4 (2012).
[4] ABIODUN & OYENIYI (2011).
[5] *Id*
[6] SANKARSHAN BASU AND SANJANA RAMAN, IIM BANGALORE, https://www.independentdirectorsdatabank.in/img/partners/617fac25623fe.pdf (last visited Nov. 10, 2022).

5. Fairness - Just and fair in dealing. No arbitrary approaches for overreaching and indecent gains. Aspects of these could be equal treatment, tolerance, acceptance of diversity, open-mindedness, responsible to oneself etc.

6. Concern for others - Caring, compassion and benevolence. Achieving objectives while keeping in mind creating a positive impact on others.

7. Law Abiding - Operating country's legislations, statutes, rules etc.

8. Leadership - Being responsible and taking appropriate steps in regard to the available position and resources. Taking on endeavours and always remaining prepared.

9. Accountability - Accepting one's mistake and taking absolute reasonability for their decisions. And the effects such decisions are going to put on the company and the related stakeholders.

10. Morale - Protecting and building a correct set of actions to operate the company and just framing should not only be mounted on profits.

[D] Need for Ethics

The major answer to this could be to bring *"clarity"*.A set off governing guidelines need to be formed for the stakeholders to protect themselves and the insiders of the company i.e the *employees*. Hence, we need to take into account both outside and within the company.

Examples could be

(i) Discrimination on basis of gender, preferences, race, language, ethnicity

(ii) Shareholders not receiving dividends on time

(iii)Investors having discrepancies in returns

(iv)Relation between business and society

Some regulatory bodies both at internal and external levels who keep these corporate bodies under check :-

1. *Investigative reporters* - Some of the world's largest scandals were brought to light by these

people. They can also be termed as *"watchdogs"*. They keep an eye on business deals, financial reports and submissions of each company. If caught in a questionable action, then the company is held liable and thus, receives media attention which can further ruin its reputation in the market.

2. *White-Blowers* - This is someone at the internal level. A present or a former employee who uncovers information which is against law or code of conduct or regulations. Such instances could be in mismanagement, misuse of funds, abuse of power etc.

3. *Ethics Board/ Committee* - These are formed inside the organisation to submit reviews and recommendations to the board of directors and the management in regard to police, and procures connected to ethics. Another important role of this is to resolve internal disputes between employees and the organisation in matters where a violation of ethics has happened

4. *Ethics hotlines* - This is a "no revelation of identity" method to report cases of ethical violations to the committee. Once, such a complaint has been received, upon investigation and then substantiating it with proof, if it is found to be true then the committee punishes the violator.

5. *Third-party evaluation* - These are inspections made by the government on regular basis and mostly impromptu. If found guilty, then companies are severely punished.

[E] Ethical practices in different sectors

Here, I have considered seven sectors and according to prevalent data collated information on the most common cases of violations in the company. As it sector has its own set of unique challenges, Hence, it is necessary to find out its commonalities and distinctions at the same time.

1. *Unethical Practices in the IT industry*

- Spreading viruses

- Piracy

- Hacking

- Spoofing - A method of getting access to random computers where the hacker sends a mail

portraying as a legitimate source asking either to click on links or change passcodes of account etc.

- Infringement of copyright

- Phishing

- Account take-overs

- Extortions over the internet

- Unauthorised sharing of information

2. Unethical practice in Human Resource Management

- Formulation of unethical policies on the basis of discrimination, recruitment, wages, work allocation and promotion.

- Any form of absence or bias

- The rights of workers are not recognised by the employing company

- No sufficient notice before downsizing or layoffs,

- The exploitation of workers with lower wages

- Issues of privacy in the case of women workers

- Questionable hiring and firing policy

- Prevailing of sexual harassment

- Conflicts are not settled amicably. There was no negotiation or co-operation

- Delay in compensatory policies for exploited workers.

- No concrete or complete information regarding employees.

3. Unethical practices in Manufacturing

- Adulteration

- Defective products

- Dangerous toys

- Misleading endorsements

- Dumping withdraw products

- Illicit production of alcoholic products

- Unsafe designing for usage

- Outdated production line methods

- Compromise on the safety of products

- Short product life cycles

- Manufacturing of chemical weapon

- Irresponsible advertising of tobacco and cigarettes

- Manufacturing destructive products

4. Unethical Practices on Education

- Fake qualifications and diplomas

- Illegal fees charging

- Misuse of funds

- Sexual harassment

- Plagiarism

- Theft of school equipment

5. Unethical practices in Healthcare and Pharmaceutical Industry

- Malpractice in Nursing

- Abusive medical practices

- Lack of medical ethics

- Medical misconduct

- Unethical practices by doctors

- Irreverent medical diagnosis

- Issues in health practitioners.

- Disposing patients without medication or prescription

6. Unethical practices in Finance

- Manipulation and incorrect financial data

- Artificial hyping of share prices. Glorification of the company's performance.

- The notorious practice of insider trading

- Merger pf companies which is deceptive.

- Delay in payments to suppliers, taxes, duties etc

- Avoidance of taxes and adjustments of loans

- Inappropriate subsidiary companies with unnamed enterprises to avoid payments to the government

- Fraud in the stock market.

- Extensive and inappropriate trading in the stock market

7. Unethical Practices in Government

- Bribery, nepotism, undue influence

- Actives in conflict of interests

- Misuse of internal knowledge

- Design dependent on favours

- Inappropriate gifts and entertainment

- Use and abuse of confidential information

- Any kind of incompetence

[F] 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*.[7]

Features:

1. Social costs and private gains

2. No linkage between the two alternative course of actions

3. The predominance in the case of competitive behaviour.

4. Inconsistency between objectives

5. Difference in values

Sometimes, doing what is right can even produce bad while in others while doing something wrong it might produce a good result. Hence, the moral obligation is balanced by the good result in the end. There is an achieved *satisfaction* of being right regardless of what negativity

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[7] TAIMINI (2017).

it brought, Hence, it is witnessed that there comes the aim for the *best outcome*.[8]

For example, a whistleblower employee reveals malpractices where the reputation of both the employees and the company shall be revealed. Here, he represents ethical behaviour on his part instead of being complicit with the situation. Another example could be a senior withholding the promotion or incentives of an employee to display his *maximum potential.* So, here even though the process was bad but it lead to a good outcome.

[G] The link between culture, corporate culture and ethics

Along with culture other factors like age, sex, religion etc are also contributing factors. Ethical values draw inspiration from an employee's integrity, morals, loyalty and personal ratification. Such ethical perception plays a major role in *decision making.*

What corporate culture creates is a uniform and ethical atmosphere while taking responsibility. First, corporate culture establishes ethics in an organisation Second, acts as a cornerstone to the company's code of conduct. The point is for executives and employees to take objective decisions putting aside any personal ethics or cultural background. Such improvements lead to shared beliefs and a well-constituted value system.[9]

[H] Case studies which describe the need for good corporate governance

In 2008, *Satyam Computers Services Ltd*, one of the world's leading global consultants at that time detected fraud. This brought the company a terrible reputation and distrust. Hence, comes a lack of good employees and IT graduates.

Such a scam showcased how and where comes the need for good corporate governance. The scandal broke in 2009 when the founder confessed that the accounts were tampered with and disclosed a fraud of Rs 7000 crores. Then, he, *Ramalinga Raju* and his brothers were found guilty. Such a scam happened to the topmost executives of the company by altering audits and revealing fraud.

Resulting of this, Citibank froze 30 of Satyan's bank accounts. Further, the founder and his founder's brother were jailed. Additionally, the company was disbanded and the government

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[8] TOTA & SHEHU (2012).
[9] LOZANO (1989).

appointed ten of its own directors. Further, the company was removed from both nifty and Sensex. A CBI investigation began and three charge sheets were filed.[10]

It is ironic as Satyam had won the "*Golden Peacock Global Awards*" in the UK for best Corporate governance practice in 2008 by the UK-based world council which was later revoked. The company has further won numerous awards Loke bets IR website, a partner in anti-money laundering etc.[11]

Other similar cases could be of the *Punjab national bank* (PNB) where it swindled $2.2 billion to ace jewellery designer *Nirav Modi*. This happened by raiding credits from overseas branches of Indian banks by creating illegal guarantees in Indian banks. An internal investigation revealed that such fraud was caused by a handful of employees.

Then comes, India's biggest liquor baron, *Vijay Mallya* who is wanted for cases of fraud and money laundering of about Rs 9000 crores. He lost a court case against 13 banks and then owing to which he fled the country.

[I] Corporate Governance System in India

There is some serious weakness when it comes to corporate governance in India. The administration is not properly placed followed by issues of implication and rather unimportant to some people like *Ramalinga Raju, Nirav Modi* and *Vijay Mallya*. The judicial system takes years to come to a conclusion and thus disputes stretch for a very long time. Members of a company are unaware of the doings of their executives and employees. The board have become incapable of constantly monitoring legalities.

India has a lot of family-owned companies. In private or public companies, the role and responsibility of the board of directors depend upon the articles of the company. Shareholders have a lot of power over the director. But the Board of directors can be manipulative and can only keep the interest of major stakeholders in mind.

Then, comes issues of ethical and professional standards, especially for accountants and auditors. Their behaviour should be kept in check and regulated. The corruption, laid-back

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[10] THE HINDU (2015).
[11] AGARWAL (2009).

attitude of employees, regulators, and loopholes in the system has permitted these scams to occur.[12]

After witnessing all this, the *Securities and Exchange Board of India (SEBI),* which is regulator for securities realised the need for good corporate governance in the country. Several committees were formulated to tighten the loopholes and prevent leeway. They are *Kumar Mangalam Committee, Naresh Chandra committee, Narayan Murthy committee* etc.

[J] Recommendations

1. Implementation of an effective code of conduct with has been passed after getting inputs from stakeholders, obtaining regular feedback and addressing ethical dilemmas and violations.

2. The codes should be easy to comprehend, readable and concise.[13]

3. Maintaining an effective database for violations of ethics in a company.

4. Keeping a separate database for whistleblowers in the company

5. Having a completely separate body dedicated to regulating human resources and ethical responsibilities

6. The code of conduct formulated within the company should be in line with sanctioned legal conditions.

7. There should be annual revisions by incorporating stringent rules and preventing loopholes.

8. In the case of mergers, the rules need to be rewritten and revised.

9. Promoting ethical behaviour and performance through employee appraisal systems

10. Ensuring alignment of employee values to the company's code.

11. Ethical proceedings should be made in private unless a violation is proven.

12. The government needs to introduce legislation to safeguard the interests of shareholders,

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[12] BALASUBRAMANIAN (1998).
[13] SCHWARTZ (2004).

stakeholders and consumers.

13. Regular inspections at both upper and lower management.

14. Mentioning that "*Not reporting a violation is also a violation*".

15. Ensuring prevention and prohibition of sexual harassment act

16. Inviting external bodies to conduct audits and take in feedback.

17. Employees in charge of ethics should be accessible.

[K] Conclusion

This paper entails the current corporate governance structure and ethical climate in info. There is a serious lack of a "National Code of Business Ethics" in the country. As a result, what one company country considers unethical might not be unethical for another. Hence, the need demands a uniform code of conduct.

Additionally, addressing the fact that there do and is, exist loopholes in the governance esteem. The previous thought o *"its ethical because it's legal"[14]* Ethics is more than just law. To actually find out if an employee is taking advantage of loopholes and is causing unethical behaviour - A dire need for a coherent understanding of Indian companies and their consideration towards ethical and unethical values are required. To achieve this purpose, it is important to access the current status of corporate governance in India.

If India wants to be a *global leader* in the field of business ad trade, then extensive efforts towards creating an ethical business climate are required and are of utmost importance. Once the shortcoming is found by divulging into various prevalent cases, then it can sprout recommendations. Hence, helping the nation in building a healthy global; business world.

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[14] COLLINS (2013)

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