Group Dynamics
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Lecture - 24
Organizational Justice, Ethics and Corporate Social Responsibility: Part-II

Hello friends, welcome back. Today I am going to continue my discussion pertaining to organizational justice, ethics and corporate social responsibility. So previously, we talked about, discussed about organizational justice, meaning and what are its forms and what are the consequences and antecedents of organizational justice. Today, I will discuss about ethics in organizations.

In a layman fashion, we can easily understand the literal meaning of this term ethics, which means that to understand that what is right and wrong or what ought to be done and or what not ought to be done. This is a literal meaning which every layman would understand. But from the organization behavior point of view, this term connotes some different aspects of behavior in organizations and how organizations have a very deep impact and long-lasting impact on employees.

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So talking about ethics in organization, so it refers to the conduct that govern people's decision, actions and behavior. Decisions here means that to what extent any decision or action or behavior which is right will have a long-term positive impact on the other members of the organization and if any wrong decision, which is very much unfair or

unethical or unjust, will have a long term negative impact on the other members of the organization.

So organizational ethics refers to the study of people's tendency to behave in morally appropriate ways in organizations. Now here the morally word has been used and we can say that there is a thin line difference between ethics and morality. So when we are saying that it refers to the study of people's tendency to behave in morally appropriate ways in organizations, so here morally means that individuals believe about right and wrong.

Maybe it will differ from organization's concept of right and wrong, but it is an individual's belief that what is right and wrong and it has lot of cultural backing that we differ from culture to culture, we differ from each other and in what culture something is right maybe in another culture, it is wrong.

But when it comes to organizational ethics, then a common ground of right and wrong pattern of behavior has to be established and it is very much well established, so that people can function on one common platform and people are meeting together to meet their common objective or goal. So when we say that organizational ethics is about morality or appropriate morals of behavior, then actually it is formed, because people have common interest and they hail from different backgrounds.

So just to move towards, work towards common goal and objectives, then a code of ethics has to be established, which dictates within an organization and formulates certain principles that are used to guide the organization in its decision programs and policies.

Now this program, this policy or code of ethics can be related to every aspect of organization in terms of hiring practices, in terms of corruption, in terms of cheating, in terms of stealing, in terms of treatment that we give to the other member in the organization. So we can say that, organizational ethics consist of leaders and employees adhering to code of ethics, which have strong cultural basis.

That means, every organization has its own culture, and that culture is very much defined by its own code of ethics, that in our culture in our organization, what is considered to be right and wrong and maybe we will differ with the cultures of the other organization. So this is how we define ethical behavior in organizations.

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An organization's ethical philosophy can affect the organization in many ways, including its reputation, productivity, and bottom line

At the same time, ethics within an organization can offer many benefits:

✓ A positive ethical culture improves the morale of the employees, which could increase productivity, employee retention, and loyalty

✓ It leads to improved efficiency with higher productivity and increased employee retention and reduced cost of replacing employees

✓ Other essential benefits of an ethical culture include improved internal communication and wider community development through corporate social responsibility

✓ Organizations focusing on encouraging ethical practices are commonly viewed with respect by their employees, the community, and corresponding industries

✓ Ethical business practices of organizations have resulted in a solid financial bottom line. This has been seen through greater sales and increased revenue by companies retaining talented personnel and attracting new skilled employees

✓ More importantly, an ethical organization will have the ability to retain employees who are experienced and knowledgeable (generally referred to as human capital). This human capital results in less employee turnover, less training time for new employees, and greater output regarding services (or production of goods)

Now comes that every organization's ethical policy can affect the organization in many ways including its reputation, productivity and bottom line. Why bottom line because, definitely we are focusing on the productivity and efficiency of organization and the group members, that is for sure.

But ethics is something an issue to be discussed about that it touches right from the bottom line because rightness in behavior has to be very much combined and regulated right from the bottom line to the top level because if it is corruption for instance, it can start at the bottom line and definitely if it is corruption at the top level then definitely it has also to be corrected.

So organization's ethical policy has some long term impacts, and it has been summarized by OP professionals in terms of its certain benefits. The first is that a positive ethical practice or culture improves the morale of the employees which could increase productivity, employee retention and loyalty.

That means, when there is a concept of fairness that exists in any organization, the morale of the organization is very high in terms of payment, in terms of selection, in

terms of recruitment, in terms of punishment as well, that if someone has done something wrong, then he or she is not being protected, but either he is being fined or punished.

This creates a culture of fairness in the organization which fosters the concept of what is right and wrong or what is favored, what is acceptable and not acceptable. So this promotes loyalty, obedience and better retention of employees because people become more committed to the organizations. They feel safer and more comfortable in that culture.

The other is that it leads to improved efficiency with higher productivity and increased employee retention and reduced cost of placing and replacing employees. Sometimes, when there is so much of unethical behavior prevalent in any organization, then people tend to develop a tendency to leave the organization.

Even when any employee leaves the organization, then it is a problem for the organization to hire a new employee, which requires a complete process in terms of not only hiring, but what is the cost involved in hiring a new employee. And if there is ethical culture in the organization, then definitely this tendency of leaving the organization of the employees can be reduced to a larger extent.

The other is that other essential benefits of an ethical culture include improved internal communication and wider community development through corporate social responsibility. It is an adage term to the term organizational ethics, corporate social responsibility, but the main benefit is that when there is so much of honesty, open communication is between and among members, then definitely the communication is clear.

There is no tendency to withhold certain information from the other people and there is free flow of information in every direction. That actually fosters development, personal growth of an individual in terms of knowledge enhancement, and also the people tend to engage while going beyond their corporate duties or organizational duties and contribute more to the organization and community.

But this tendency can be felt only when employees have this perception about their organization that my organization is ethical in working. The other is that organizations focusing on encouraging ethical practices are commonly viewed with respect by their employees, their community and corresponding industries.

When organizations are ethically correct or they foster ethical culture in the organizations, as a result, they tend to earn reputation for themselves, which is when communicated to the external world then it adds more respect to the organization. The other is that, the other benefit that ethical business practices of organizations have resulted in solid financial bottom line.

That means, employees even at the lower level or bottom line, they tend to exert more efforts to the tasks so that more performance is enhanced, more sales is encouraged, more manufacturing or production is increased, more training is fostered or promoted among the person so that they can enhance their performances. So all in all, when ethical culture is prevailing in any organization, this actually increases the financial benefits to the organization.

The more the organization is ethical even in offering honest services to the customers, honest products to the customers, then customers are also attracted to that particular organization because of their honest or ethical culture in the organization. So this actually fosters financial profits or benefits to the organization and the employees itself.

And the last is that more importantly an ethical organization will have the ability to retain employees who are experienced and knowledgeable. That means, when there is organizational ethics within any work culture, then there is less tendency for employees to leave the organization and they tend to form or generate human capital in terms of knowledge, in terms of skills, in terms of abilities.

And this tends to increase or it tends to swell in a way that there is less turnover, there is more time for the employees to exert more effort on the job and the output is greater, just regarding the services or production of goods.

So that means, when any organizational culture is ethically correct or right then actually it has not only positive impact on the production or efficiency of the organizations or on employees, but actually it has some intangible benefits also in terms of generating more human capital, more relational capital, in terms of positive relationship with others, because there is open communication.

So human and relation capital can be generated, if organizational culture is ethical in nature. So these are the benefits which are earned by any organization if they follow or pursue the code of ethics within the organizations although it is a very difficult task for any organization to declare oneself as completely a culturally ethical organization. Next comes basic ethical elements.

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Now the question is that on what basis we can say that any organization is ethical in nature or the culture of the organization is ethical in nature. That means certain elements must exist in any organization, where there are certain parameters to understand that organization and employees have clarity and very detailed clarity that in what manner and what patterns of behavior are acceptable and not acceptable in a particular organization.

Because, when any employee who joins the organization, then actually that person or as an employee tries to get emotionally attached with that organization, but this attachment will be strong only when any employee understands the concept of right and

wrong in the eyes of the organization itself. So OB professionals have identified four elements, which are very essential to establish an ethical culture in any organization.

So the first element is a written code of ethics and standards. That mean certain codes are being established in any organization pertaining to the functioning of the organization, pertaining to the functioning or performance of the employees, pertaining to the productivity of the organization.

So these codes or standards can be experienced in form of employee handbook, which includes laws, certain laws, rules, regulations, policies regarding sexual harassment, alcohol abuse, and drug or substance abuse, cheating or any forgery that has been undertaken by any employee, any financial misappropriation has been observed in the organization.

So every aspect illegal or unethical or unlawful aspect of behavior is identified in this in such type of books in form of code of ethics. Along with code, it is also declares that what and how the proceedings will be taken further to deal with a particular kind of case. So this is one element. The other is situation ethics. Now code of ethics talks about the general code of ethics.

Now sometimes there are certain situations which actually crosses or goes beyond the mentioned code of ethics and how that situation will be dealt based on the concept of right and wrong.

So under such circumstances, a particular context of an act when evaluating it ethically, can be judged only not only based on absolute moral standards, but actually understanding that why a particular event has happened or why a particular employee has behaved in a particular or acted in a particular way, that does not come under the normal code of ethics.

But again OB professionals or experts try to probe into those acts while going beyond such normal situations. The other is ethics training. Presently, just to cope up with the present demands of the organizations and meeting the competition, then ethical training is also being fostered among managers, executives and employees, where they are being

trained right from the day one that if they have joined the job in a particular organization, then in what manner they are supposed to behave and act in a very ethical or morally appropriate manner.

So this is training where a particular department is being established. Some experts do exist there and they try to make the employees comfortable by making them understand that what is right and wrong in pertaining to their performance and behavior. And the other is confidential reporting systems.

A proper system is being created in organizations where experts tend to take account of every unethical behavior and a report is been prepared so that it can be shared, it can be communicated with the higher officials, authorities and appropriate action can be taken against the person or employee who has performed any unethical or immoral act. So these are the basic elements in terms of the written code of ethics or standard ethical codes.

It can be ethics training, it can be situational ethics, it can be availability of ethical situational advice in terms of telephone or telephones or proper ethical guidelines or offices. Special departments are being established where employee can just approach these sections and departments directly to understand what if they take any particular decision and how it will be considered to certain extent to be ethical or unethical.

And the last is confidential reporting systems. That means, a proper reporting is being made to the higher officials that in what manner the behavior can be modulated or regulated, if it is considered to be unethical or immoral. Now since I am using the term ethical and moral, then there is a thin line difference between these two terms.

And just now I mentioned that it is very much backed by the culture, by the term culture. Because every country has its own culture to understand what is right and wrong and every organization has its own culture to understand that what is right and wrong. If I say that helping a person in need is the right thing to do, then killing an innocent is also not the right thing to do.

But it can be differentiating from one culture to the another. So let us continue that what is the difference, exact difference between morals and ethics.

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Morals and Ethics: What's the difference?

"The truth of the matter is that you always know the right thing to do. The hard part is doing it."

This notion is central to the distinction between two key terms--- *morals and ethics*

When social scientists speak of moral values/ or morals, they refer to people's fundamental beliefs regarding what is right or wrong, good or bad. One of the most important sources of moral values is the religious background, beliefs, and training we receive. Based on these beliefs, people are guided in ways that influence the decisions they make and the actions in which they engage. These standards are referred to as *ethics*

Thus, ethics refers to standards of conduct that guide people's decisions and behavior (e.g., not stealing from others)

So we can start a discussion with the statement that the truth of the matter is that you always know the right thing to do. The hard part is doing it. Definitely lot of control is required on an individual's behavior to take the right action. One needs to have that kind of motivation, that morale and spirit to say things that this is right and this is wrong or taking the right action no matter how the other officials will react to one's own decision.

So with this notion we can say that moral and ethics have two aspects, they are two aspects and how they relate to each other. So when social scientists speak of moral values or morals, they refer to people's fundamental beliefs regarding what is right and wrong or good or bad. I am thinking that this is right and maybe the same thing is being perceived wrong by the other person.

Similarly, one particular act is considered to be acceptable in organization and same act is not considered to be acceptable in the other organization. So basically, morals are the fundamental belief of an individual, that what is right and wrong. It is an individual's perception, that what I think is right, and what I think is wrong. So one of the most important source of moral values is religious backgrounds, beliefs and training we receive.

It is a long term process that happens that to understand what is right and wrong. In the day-to-day interaction with our family, with our significant others and in our own community and culture, when we try to interact on these notions of right and wrong, then there is an unconditional learning to us, that we imbibe those concepts of right and wrong and it is unconsciously reflected in our own behavior.
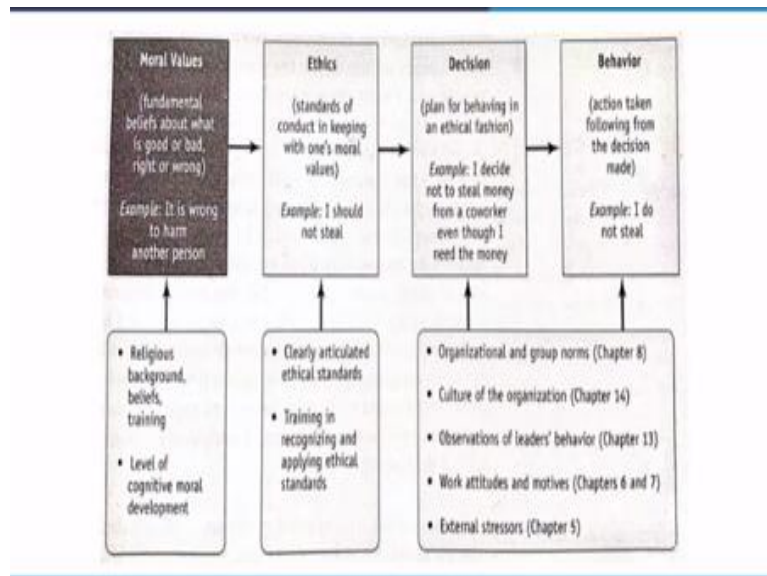
So this is how morals are cultivated. So based on these people are guided in a way that influence the decisions they make and the actions in which they engage. That means unconsciously when we imbibe those beliefs based on culture, our decisions are also influenced based on those belief system only. And we do engage in those type of behaviors.

So these, when we maintain these standards, when we maintain these beliefs in long run, they form ethics. Initially, it is backed by culture, it is a belief system. But later on when it reaches the process of decision making, then actually it becomes a standard way of thinking and we consider it as ethically right or ethically wrong. So ethics refers to standards of conduct that guide people's decisions and behavior.

For example, not stealing from others. It is a belief system initially and gradually we imbibe this belief, and we tend to bring it into our decision-making system which becomes a standard code of behavior in terms of ethics. So this is a difference between ethics and morals. Morals is fundamentally an individual's belief system based on particular culture, religion or community belief system.

And when it becomes a standard way to conduct in every way in the same manner, then it becomes a code of conduct that is ethics.

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Moral Values	Ethics	Decision	Behavior
(fundamental beliefs about what is good or bad, right or wrong)	(standards of conduct in keeping with one's moral values)	(plan for behaving in an ethical fashion)	(action taken following from the decision made)
Example: It is wrong to harm another person	Example: I should not steal	Example: I decide not to steal money from a coworker even though I need the money	Example: I do not steal

- Religious background, beliefs, training
- Level of cognitive moral development

- Clearly articulated ethical standards
- Training in recognizing and applying ethical standards

- Organizational and group norms (Chapter 8)
- Culture of the organization (Chapter 14)
- Observations of leaders' behavior (Chapter 13)
- Work attitudes and motives (Chapters 6 and 7)
- External stressors (Chapter 5)

Now this is a diagram which will explain us that how morals are converted to ethics in terms of code of ethics or standards of behavior, which influences our decision and when the decision is being taken, which is very much influenced by our by our code of conduct, then it is being exhibited in our behavior and that behavior is being then evaluated.

So moral values are the fundamental beliefs about what is good or bad or right or wrong. And these are based on religious backgrounds. It is developed from one stage to another. Right from infancy to adulthood, we try to develop this belief system because we are interacting in a particular environment where religion, belief, caste, creed, rituals, culture, patterns, norms, everything is being dominated on us and how we get influenced by those cultural systems.

When these moral values become so strong within ourselves, then it becomes a code of conduct that this is how we think it has to be done and we maintain a standard that we will not fall below it, if we have to maintain some standards of behavior. That becomes ethics. So these are the standards of conduct in keeping with one's moral values. How to maintain that belief system some standard has to be maintained.

It can never be a shaky thing. To maintain that system, we maintain a code of conduct or standards of conduct, that this is how that belief system should be maintained. For example, I should not steal. So this is a standard. Belief system is that stealing is wrong,

stealing is bad. Now making it an absolute code of conduct, we will make it a standard that we will not steal. That is I should not steal.

And how did this ethical standard influences our decision that we make a plan for behaving in an ethical fashion. That means, belief system when becomes more mature, it becomes standard in form of ethical standards or code of conduct. And it influences our decision making that it is my decision that I will not steal my employee money no matter what I am, I am in deep need for some financial support to run my family.

So this code of ethics says that an individual's decision that I will not perform a particular pattern of behavior or I will perform a particular pattern of behavior. So the example of decision making can be that I decide not to steal money from a coworker even though I need money. And it has been exhibited in form of behavior.

That means the decision has been exhibited in form of behavior that action taken following from the decision made. That means, I will not steal, I do not steal. If anybody would say that I can steal, then definitely that behavior will be exhibited in stealing the money. Somehow later, it will be revealed, the person will be exposed. But that behavior will be reflected accordingly in terms of right and wrong.

So this is how the difference has been defined that initially morals are the belief system, which are converted to code of ethics or standard of behaviors in form of ethics, and how it influences decision making process and that decision is being reflected in an individual's behavior. So this is the difference between morals and ethics.

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Famous Ethical scandals

Now since we are talking about morality and ethical standards of behavior, then we will also discuss about some famous ethical scandals that has occurred globally and how they have proven that with anything which goes wrong, then what are the consequences of those unethical standards of behavior.

So on the slide as per the year, the companies have engaged, indulged in some unethical practices, and how these unethical practices led them to experience shame, to experience defamation at the same time and how the company went into deep and severe losses. So if I talk about certain examples such as Charles Ponzi, they were indulged in financial in appropriation that how they declared themselves bankrupt.

So in every kind of example, if I talk about Ivar Kreuger, Billie Sol Estes, Bernie Cornfeld and Robert Vesco, Charles Keating and officials of the International Olympic Committee. All these companies were indulged in some scam, in some unethical standards of behavior, which led them to suffer major losses in terms of bribery, in terms of financial in appropriation of the funds.

In every case, there were some kind of unethical standards of practice which were very much adopted by these companies and ultimately faced accusation. Similarly, there were some other companies such as Adelphia Communication, Arthur Andersen, Enron, it was a giant company, Global Crossing, Tyco international, WorldCom, Halliburton, Martha Stewart and Parmalat.

These are the companies who indulged in unethical standards and practices and how these companies were heavily accused by the external world and how they faced those accusations. But ultimately, the result was that these companies doomed, these companies actually closed down at one point of time where they were unable to cope up or manage or compensate those losses and finally declared themselves as bankrupt companies.

So these are the companies which reflect that what happens when the decision making becomes unethical, and what it leads to. So that means what are the consequences of unethical scandals or patterns of behavior in organization. So we can conclude that the ethical standards whether formal or informal are considerably higher definitely. And organizations expect more sensitivity in their conduct of economic enterprise.

So this issue is not just having the standards, it is living up to them. So just maintaining code of ethics is not enough. Following those code of ethics is very important. Every organization has code of ethics. But the question is that how many organizations are following and living up to those code of ethics. That is more important to discuss about, because it is reflected in the behavior.

Once the decision has been made to be unethical, then it is reflected in the behavior and the consequences are dire. So avoid such kind of circumstances. Then definitely organizations need to focus much more on ethical decision making right from bottom line to the top class authorities.

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Some biggest scandals in India

1. ABG Shipyard Bank Scam
2. Nirav Modi PNB Bank Fraud
3. Karvy Stock Broking Limited
4. Vijay Mallya Scam
5. Satyam Computers Scam
6. Harshad Mehta Scam
7. 2g Spectrum Scam
8. The Commonwealth Games Scam
9. Bofors Scam
10. Jeep Scandal

Apart from the fact that scams are seen as a crime and are done with malicious intent, there are other reasons why fraudsters carry out such criminal activities on various platforms, such as banks and financial institutions, corporate governance, and stock markets, as well as technology.

❑ Certain psychological factors include the need for media attention and social recognition. Most fraudsters have a strategy to attack those that are emotionally vulnerable when it comes to their investments. The greed for exclusivity and status consumes them, making them ignore generic due diligence and background checks. The abuse of power by fraudsters blindsides most targets since they view them as powerful and influential. The Indian banking system and banks are targeted most frequently due to the lack of adherence to processes/rules, poor corporate

Next comes the some biggest scandals in India. That even in India, there are certain infamous scandals that have occurred and how it led to closing of number of companies. The first is ABG shipyard Bank Scam. It is a very old scam and how they took loan from different kind of banks and how they failed to return the loan and declared themselves again one more time bankrupt.

Nirav Modi PNB Bank Fraud. This is very much new and we are very much aware about these cases that how he took loan from the other PNB banks and the loophole was that the swift code was not very much functional in those banks. Karvy Stock Broking Limited. Vijay Mallya Scam. Satyam Computers Scam. Harshad Mehta Scam, 2g Spectrum Scam.

The Commonwealth Games Scam, where Kalmadi the minister was accused of engaging indulging in burglary. Bofors Scam and Jeep Scandal. Even Jeep Scandal, it is a very old scam which occurred immediately after the independence of our country and how some ministers were involved in purchasing Jeeps from foreign companies and what kind of financial misappropriation was reflected on the documents.

Now these are the unethical standards of behavior where it is financial burglary is there we understand, but sometimes this unethical behavior is also reflected while manipulating the documents or declaring that documents have been are missing.

Under such circumstances, there is no proof and ultimately the company has to face higher losses that it is unable for the company to face those losses and it leads to increased retention, layoffs, firing of the employees and ultimately, there is a lockdown in the company.

So these are the companies which actually reflect the unethical patterns of behavior, but definitely the other side is also positive, that there are some companies which actually strictly follow the ethical guidelines and how they have gained fame and success based on only on those ethical standards of behavior. But the question is that why this unethical behavior evolves in any organization.

So OB professionals have talked about some psychological reasons that why people indulge in organizations in unethical patterns of behavior. So there are certain reasons. The first is that when people require more attention and social recognition, then they try to engage in behaviors, which give them more power. Even when they get some power, they try to misuse those power and they want to move ahead.

They want faster success and fast money at the same time. So in urge of attention and social recognition, people try to gain more power and again misuse those powers to come into limelight and make more money. And another is that sometimes when they are exposed to some emotionally vulnerable community of people, even in organizations then they try to cash on.

They try to involve, indulge those employees in their own unethical plans, and how they use those emotionally vulnerable people in those plans to get more money out of that organization. The other is exclusivity and status consumes. To have a higher to maintain a higher standard of lifestyle, people tend to indulge in unethical practices where they can earn more money. For example, money laundering.

So money laundering, people have higher desire to maintain a high quality of life or living standards and then people engage in these kind of unethical practices. And the other is that sometimes there is lack of adherence to process rule or poor corporate rules, regulations and policies, and people tend to misuse those loopholes and make more money for their own profit.

For example, just now I said that in case of Nirav Modi PNB Bank Fraud, it is being stated that that in certain banks when loan money was transferred from one account to another, the swift code was not active, which helped the unethical characters to indulge in more unethical behavior and indulge in money laundering.

So these are the reasons that why a person is sometimes attracted towards these unethical practices because people have the tendency to satisfy their own interest and they indulge, evolve, involve other people also in the same immoral practices. So these are the biggest scams of India, which are completely declared unethical organizations. So that is all for today. Then I will start in the next class. Thank you.