

**Business Ethics**  
**Prof. Susmita Mukhopadhyay**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology, Kharagpur**

**Lecture -18**  
**Setting standards of ethical behaviour**

We have discussed about in the last module about business ethics management, what is business ethics management and the different components of business ethics management. We have also discuss about the evaluation of business ethics management in which we found there is a shifting of the prospective from managing the employees and trying to see whether they are doing things in a proper way, following the standards of the organization and business or they are diverting from it. To the present focus on to see whether the organization is which is taken a broadly managing, and trying to answer to all the demands of the different stakeholders.

So, if we are trying to shift focus to this the whether the organization is managing the relationship with the under demands of the broad social demands then three important steps are required. First is setting the standards of how the organization is going to behave; second to understand who the stakeholders are, and to find out how the organization is going to deal with the stakeholders; and third to access the performance. So, three steps, first setting out some standards which we talk of as the code of ethics; second is identifying the stakeholders and finding out the relationship with the stakeholders and how to answer to that demands; and third is accessing the performances through audit and accounting and reporting.

So, in the next upcoming discussion of that various modules that will be following, we will follow try to discuss in details these three steps. We will start with the first one, which is setting the standards that is defining the codes of ethics.

(Refer Slide Time: 03:12)




Codes of ethics, if you see are defined as voluntary statements that commit the organization, industries, or professions to specific beliefs, values, and actions and or set out appropriate ethical behaviour for employees. If we analyse the definition, we found there are two-three important key words guiding this definition. Code of ethics are voluntary statements means these have been arrived voluntarily by the organization, proactively by the organization because this is what we belief that they will be doing and this is what they will be aiming for. So, codes of ethics are voluntary statements that commit organizations.

So, commitment means I understand that I will be doing it willing commitment also focuses on the willingness of the organization to follow whatever statements that they have arrived at organization industries or professions. So, codes of ethics can be at the organizational level, can be at the industry level, it can be for the professional level also. To specific beliefs values and actions, so what I belief the way that I should function in the best interest of the stakeholders beliefs, values, and actions, and to move in the best interest of the stakeholders, so that all of them coexist with each other without harming majority providing harm to each other. Then what is the actions that needed to followed and also to set out what are the appropriate ethical behaviour for the employees within the organization to be followed.

There can be four main types of ethical codes as already discussed. One is at the organizational or corporate code of ethics. Second code of ethics could be very specific with related to the profession for say professional codes of ethics do's and don'ts of every professions. Industry code of ethics, code of ethics, which the industry as decided like the organizations within a specific industry will be following certain rules principles and practices, which are been arrived at by a consensus by the different organizations in that industry and which that they formally agree to follow, because of the membership in that particular industry.


Programmes or group code of ethics these are belonging again to specific groups. And member organizations or member individuals who are members of that specific groups, so that they can remain as group members. They have to follow certain codes of ethics which have been mutually agreed upon, and then arrived at from formulated framed that if you are a member of this group then these are the norms, regulations, actions that you need to follow, so that then only you get recognised as a member of this groups, otherwise not. So, it there can be four types of ethical codes organizational corporate codes of ethics, professional codes of ethics, industry codes of ethics which are like specific to the industries and also programme or groups code ethics.

(Refer Slide Time: 08:13)



**Prevalence of codes and ethics**

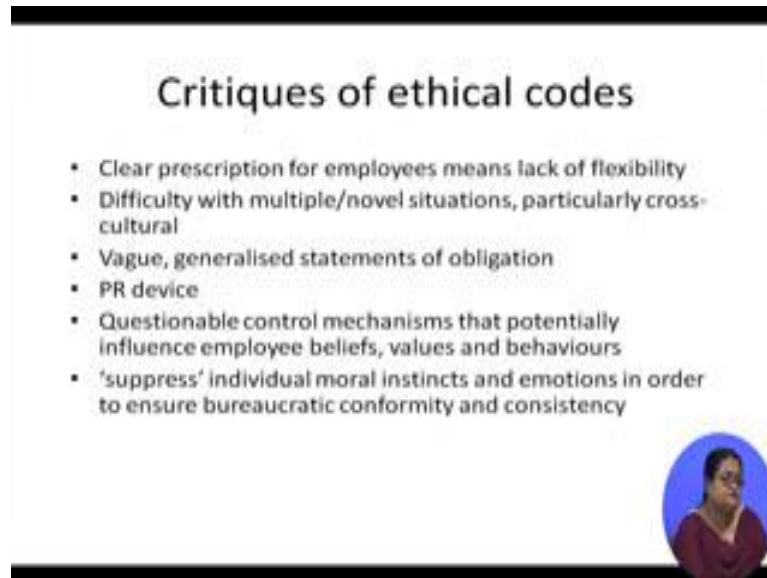
- Increasingly common
- Substantial rise in usage during 1990s and 2000s
- 2/3 of large UK firms have some kind of formal ethical code whilst almost all large US firms have a code of ethics (Weaver et al. 1999)
- Less prevalent in Europe, and in SMEs (Spence and Lozano 2000)



So, the prevalence of the codes of ethics that earlier it was not so much prevalent, but it is become increasingly common, and it substantial rise during 90s, after 90s and 2000,

but it has not been, so, prevalent in like SMEs and Europe like it is less prevalent in SMEs and Europe.

(Refer Slide Time: 08:57)



What could be like what are written as a part of code of ethics like it is written the generally the detailed steps of the do's and don'ts for how the what the organization wants to do, and what the organization wants its employees to follow with respect to certain aspects. What are the organizational preferable ways of behaving, what are the organization guidelines regarding certain aspects, like organizations guidelines for taking gifts and drives, organization guidelines for dealing with work place harassment, organization guidelines for discrimination in the work place, organization guidelines for how to deal with the organizational properties by the employees. So, these type of what the employees can do, and what the employees cannot do, what the organization will be doing what type of business organization will be entering into, what type of things will organization will not be promoting, these type of detailed things when it is written down that becomes the code of ethics for the organization.

However, there has been a debate regarding whether the codes of ethics there should be some ambiguity in the codes of ethics or it should be explicitly written codes of ethics. Both sides have some positives and negatives. If it is explicitly written codes of ethics very detail all steps minutely written then positive part of it is employ exactly knows in

details what is expected of them from the organization, and how to behave in what type of situation.

The negative part of this is it restricts the moral autonomy of the person to decide on whether to do and how to do in what situation. And when we are talking of the taking a moral judgement ethical judgement having a moral autonomy to decide on it is one of the marks of showing whether the organization makes people follow. What it things like it is right or wrong, or it gives peace for the employees also to exert like whether it allows the employees also to use their judgement and moral autonomy and in work on their moral imagination to find out what are the possible right and wrong in actions that they doing and work accordingly. So, this could be the flip side of have been a too detailed ethics code of conducted.

Also if it is too detailed well written everything written through like minute steps it may restrict the flexibility of the steps to be adapt into a different kind of situation for which the code is not written. On the other hand, if the code of ethics is kept ambiguous in nature then it can be it can have the flexibility of using in different situations or as per need of the situations, it can allow for the moral imagination of the person the moral autonomy of the person. But also the risk for this type of ambiguous code of conduct or code ethics that if the ambiguity is too much then what is the use of having that codes of ethics in place, because there are no clear frame are given, clear guidelines given what an employ is expected to do, and everything is left free wheel of the employ to decide how to act in a particular situation.

So, too much ambiguity may lead to each employee interpreting that that code according to his or her own way of saying it, according to his or her thinking. And like maybe we are already discussion locus of control, cultural and other factors which affects in individual ethical decision-making. So, if too much ambiguity is there, so the interpretation of it may be varying from person to person and people do not have a general guideline what to follow.

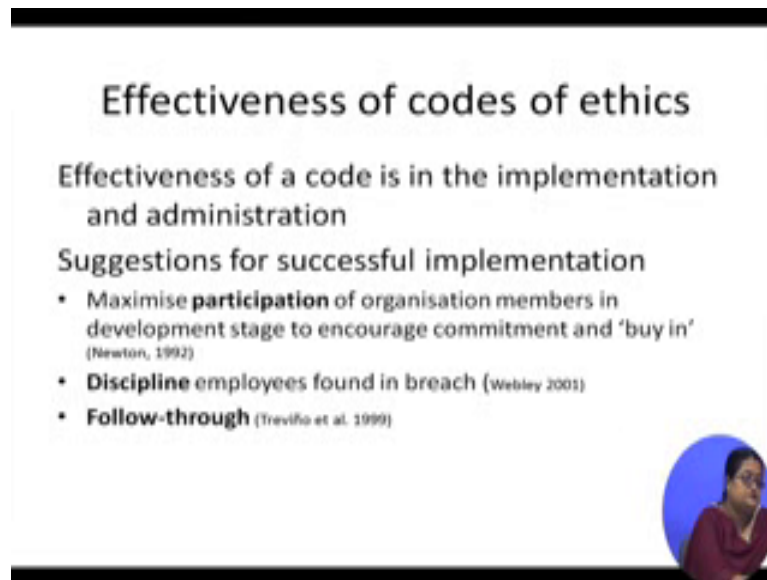
So, it has to be maintained like a balance has to be maintained between how much position in writing down the details of every steps to what details it should be there, and how much ambiguity is to be kept. What are the details is to be done, what are the different points which needs to be covered while we are discussing about code are

conduct. A well-written code of conduct is where helpful in acting as a guiding principle. So, it is not only the principles which need to be stated, but the code of conduct should also tell the practices that require to be done. So, if there are practices are followed then the principles are reached. So, both ways it is required.

So, what coming to the critiques of the codes of conduct is as I have already discussed clear prescriptions some time means lack of flexibility. Then clear prescriptions is sometimes be difficulty in dealing with multiple or novel situations, specifically in cross-cultural situations with the inter pretention like gifts and prizes very in their interpretation across like various situations or in different cultures. If it is ambiguous it is then vague, generalised statement of obligation which may appear just like a it is public relation mechanism with just showcasing that we are doing certain things, but the seriousness of doing it is not there.

Questionable control mechanism that potentially influences employs beliefs, value and behaviours as we are discussing. If it is too much in depth written thing it may appear like it is (Refer Time: 18:03) on the moral autonomy of the person to like exercise that moral autonomy to think in certain way, and it is moulding the people to and like and try to make them follow, what the organizations things, it is right and wrong. And what which may be not right and wrong according to the particular person and to suppress individual instincts and emotions in order to ensure for the bureaucratic conformity and consistency.

(Refer Slide Time: 18:46)



So, if then that is the criticism for the codes of ethics, then generally we also have to think of how to make the codes of ethics effective in nature. So, if we have to understand the effectiveness of the codes of ethics, so first we have to understand what if done will define the code of ethics is effective. So, two things are important in this one is the effective implementation and administration. So, while we are talking of effective implementation, so it can be implemented only when the maximum participation of the members are taken during the ethics formations stages.

So, the codes of conducts formation stages, because we understand these are elements of organizational change that are getting introduced to the organization as a top down approach. If the employees who are expected to follow this code of conduct are not involve in the processes of formulating this codes of conduct codes of ethics, it may so happen they do not aspect it and they do not follow it properly. So, the participation of the employees in the formulation stage, participation of the employees who are expected to follow these codes of ethics during the formulation stage of these codes of ethics are very important to buy in their commitment and to encourage their commitment.

Second is how to discipline what are the processes set for disciplining employees who are found in breach of these contract, this how their discipline who are found like they are not following the codes of ethics given. And how to discipline is it what are the methods to be followed and at what stage it is to be followed, how many error is

tolerated beyond which it is not tolerated. So, everything needs to be written down properly for each of the different here again people have to find out word to find out varieties of errors that may be possible, and the varieties of breaches from conformity towards the codes of ethics that may be possible. And how much or how many times of that error it is tolerated by the organization; and beyond which the disciplinary action means to be taken, and what is the method of disciplining, either it is a positive discipline or its corrosive discipline that has to be decided by the organization.

And implementation also requires the follow through process means we implemented and then we are not trying to keep a check on whether it is being done in proper way or not, whether any modifications are required in which the things are implemented are not will not help. So, constant follow through has to be there to see like whether the codes of ethics are getting implemented properly. And what are the gaps in our understanding, our expectations like a codes of conducts or the codes of ethics will be working in this way and how it is exactly working or not. What are the facilitators and what are the barriers in its process of working.

If we can do a details study of that then we have to like take with this feedback, we have to rework on the process again try to modify it, and see it that it is becoming more acceptable and to the employees. And they are like working on it and the organization through its mechanism are also facilitating the use of this codes of ethics. This constant process of it is like a cyclical process, where involvement of people in the decision making process in the formulation stage. Then make people are working on it, they are finding out the conditions in which they can work properly or the hindrances, whether what are the where are the gaps happening, whether word there is match and miss-match there in way taking a follow up of that. And with that feedback improving the system again will determined the effectiveness of the codes of ethics.



(Refer Slide Time: 25:29)



Here we will discuss about the global codes of ethics. Why we are focusing separately on the global codes of ethics is we have already understood like there are certain difference is in cultures in the interpretation of the meaning of what is right and wrong as per that given situation or in that given region or culture. So, here what we are trying to think on whether it is possible like can the organizations devise one set of principles which is equally acceptable to all countries in which they operate. Because you seen example like the countries defers with respect to how they think about certain things, one of them is about gifts, second is the equal opportunity for employments this differs in the different parts of the world.

So, based on that can we arrive at certain values which are equally acceptable through all regions of the world and may be at we discussed about spirituality where we told like religiosity is the part way to arrive at certain values which may be is followed equivocally throughout the world in all the religion. So, religion is a just a path to those higher values. So, can we arrived at some values which are equivocally followed, universally followed throughout. And in that effort, we have found like respect for core human values and it is one of the major thinks that is taken as the global part of commitment of ethics.

And what are these core human values that also we have try to reach to come to an consensus through this, what are the core values that are followed by all religion and that

are taking to be the guiding values irrespective of the religion and the region that business is function. Respect for local traditions is another principle, which has been excepted as a part of global codes of ethics. So, respect for core human values, respect for local traditions and believe that context matters when deciding right or wrong.

So, these three important factors like core human values, local traditions and to understand agree right or wrong differs according to the context, and it has to be contextualised in that particular situation. These are more or less accepted as mutually agreed upon principles and codes of ethics to be followed global. And when we are talking of values, so certain values like respect for the individuals, and respect for their rights, these are certain values which are taken to be equally acceptable irrespective of whichever path you are following through, because these are the codes values and the global codes ethics are given towards following this core values.

Next, we will move to managing stakeholder relations.

Thank you.