The Ethical Corporation
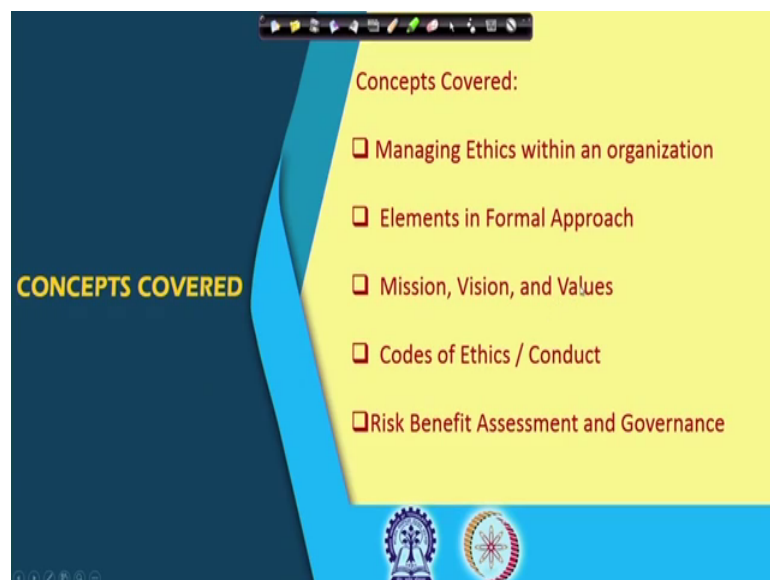**Prof. Chhanda Chakraborti**
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Lecture - 12
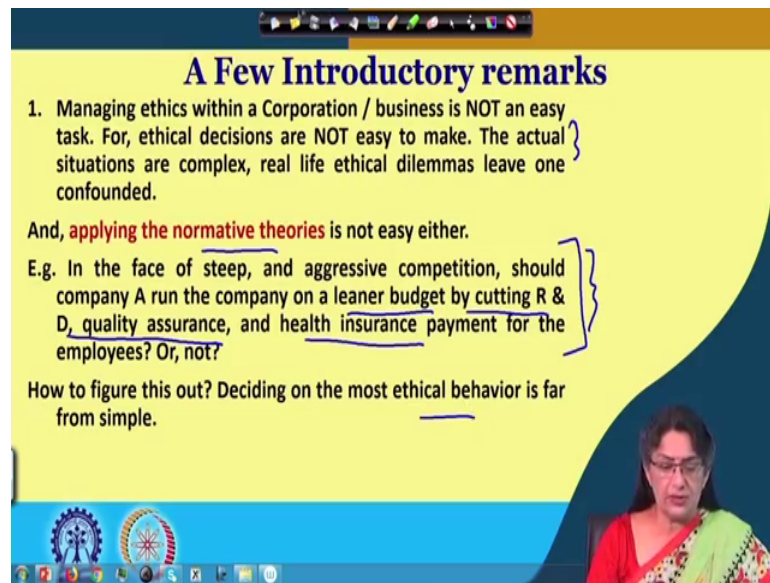**Managing Ethics within the Organization: Formal Approach**

We are into this lecture-12 today. And as promised we will be talking about how to manage ethics, but today our topic is the formal approach. In our last lecture we have already talked about that there can be formal and informal approach.

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But today we want to talk about the formal approach. The elements or the components of a formal approach specifically we are going to talk about only these three components. So, this is our game plan for today.

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Before we begin let me make this point clear that managing ethics in a in a corporation, especially a large corporation or business is not easy at all. So, let us not think about it in a trivial manner, because one of the reason is because ethical decisions are not very easy to make. We have heard about ethics, we you have just heard also about the normative theories, but when it comes to applying these to real life situations or real life ethical dilemmas, it is not easy at all.

For example, in take this example that you know when there is a very steep competition, and you want to remain solvent, you want to remain noteworthy organization. Now, you, you have to you understand that you cannot have run the business in the same way as you were doing earlier. Now, what you cut on? If the company has to go on a leaner budget, where do I make the cut first of all? And if I cut these R and D, quality assurance, or the health insurance, payment for the employees, I can survive for some. But should I, or should I not? Now, this is a situation where if you are trying to think how to apply ethics, it is not going to be easy. It is not a, it is a complex situation and you need to be trained in order to find a decision.

So, that is just an example to show you that talking about managing ethics within the organization, it is not an easy task at all. Second point is that you need a certain kind of a training in order to identify ethical issues or ethical dilemmas. It is very easy to miss the point. You can stare at the situation, you can be involved in a situation without realizing that you are actually caught in an ethical quandary.

I will give you an example, but you may have heard about the Satyam case which was one of the big – very big financial fraud case happened in India a few years back. The size of the fraud some say it was it ran up to 8000 crores and so on. The person namely the CEO, Ramalinga Raju who was in charge of the entire company and that this company was doing apparently extremely well, at least that is how the company reported about its financial health. So, it was fantastically doing, and there were investors who were very interested to invest money and so on. And suddenly the company went broke, there was false reporting about the financial status of the company.

Now, Ramalinga Raju when finally the bubble burst. He said that it was like riding a tiger, not knowing how to get off without being eaten. There were enough indications all around that what he is engaging in, because it did not happen in 1 day, over the months. There were enough indications that there was something horribly wrong, but he simply did not recognize that what he is doing namely falsely reporting the profit or the financial status of the company has an ethical issue. Even in his saying you can see he is only

thinking about himself that he is riding the tiger. And he if it does not know how to get off, if he gets off suddenly he might be eaten, eaten up by the tiger. He forgot that along with him, there were many investors also riding the tiger, and many of them are not as resourceful as he was.

So, this all I am trying to say here is that it needs a certain kind of sensitivity, it needs some sort of a trained awareness in order to recognize the situation for a potential ethical dimension. So, this we need to keep in mind when we talk about how to manage ethics in organization.

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Already said that there are two ways to manage this formal and informal, and we will try to take a look into the formal approach. Let us directly go there.

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The formal approach typically would have multiple components. For example, mission statements, code of ethics, risk benefit analysis, some designated posts or forums for managing ethics, ethics consultants, and then stakeholder engagement, or engagement with the stakeholders, and certain accounting, auditing and reporting practices. Now, all the seven we will not be able to finish today, but these three I would like to finish in today's lecture.

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So, let us go forward. I have mentioned some seven components for the formal approach, but let me make a clarification here that very few organizations or corporations may have all of these 7 components. Some business organizations may not even have any one of this. So, it is not mandatory that in order to have a formal system ethics program that all this component should be there, but we currently see that the large corporations are trying to include more and more components from this list.

There is also something else that is visible that earlier the whole formal ethics approach concentrated on rectifying employee behavior. So, the assumption was that the mal practices happen only at the persons level persons who are within the organization. But now we find that there is also focus on management of other stakeholders of the society and so on. So, we are talking about here investors for example, or even the government for example, or even you know customers. So, the nature of this focus has also changed a little bit. Let us go forward.

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First element or component is the mission statement, vision, mission and the values. Now, if we look at this then what it is the public communication? The company is trying to tell the world about the values, its aims, and its priorities. Where to find them, nowadays the easiest way to find them would be to explore the company website. The mission statement often will include social goals. I have taken just one example just to make the point clearer to you, this is Google, in 2019 to the mission statement says to

organize the world's information and make it more accessible and useful. This is Google's mission, vision and the values. Where do we find this I have tried to highlight the words that you might find linked with the corporate values, beliefs and a vision?

For example they say that they organize. So, it is not raw data that they are collecting, but that is where Google stands the whole business of Google stands in this organization. They analyze the data, they process the data, they categorize the data, they make the data the package the data in such a way that the end users feel immediately benefited by it.

So, there is this is the business activity right here. World's information this is to show that the company is actually catering to the world and collecting the information from all over the global reach of a real large corporate entity. Making the world's information more accessible not just accessible, but more accessible.

So, what we are talking about is inclusivity, you know these days we talk about inclusive growth. What we are talking about here is digital inclusivity. So, giving more and more people access to this universal accessibility is the goal or the priority of the value. And here is your access the quality of the access is equitable, equal access if possible, but if not at least equitable access, fair access and as per the need of the people.

Making it the data organized the world's information in such a way that they are adding value to it more useful. So, increased utility here is we are talking about social value creation. So, you can see that analyzing this, we find that Google is talking to us talking to us mean we are the public and the companies speaking to us.

Similarly, you can see BIOCON. This is a well known company also. And they say their mission is to enhance global healthcare through innovative and affordable biopharmaceuticals. You can see these points innovative first of all there that is the edge of the company, and to make it affordable meaning they also want to include people, so that their products and do not remain confined only for the very reach of those who only can afford them to, but to make them affordable.

So, the larger access, global healthcare you can see again the global the proclamation about the global reach and so on. And here is for whom, for patients, for partners, for healthcare system across the globe once more. And if you visit the website BIOCON, you can find even this values clearly, enunciated values.
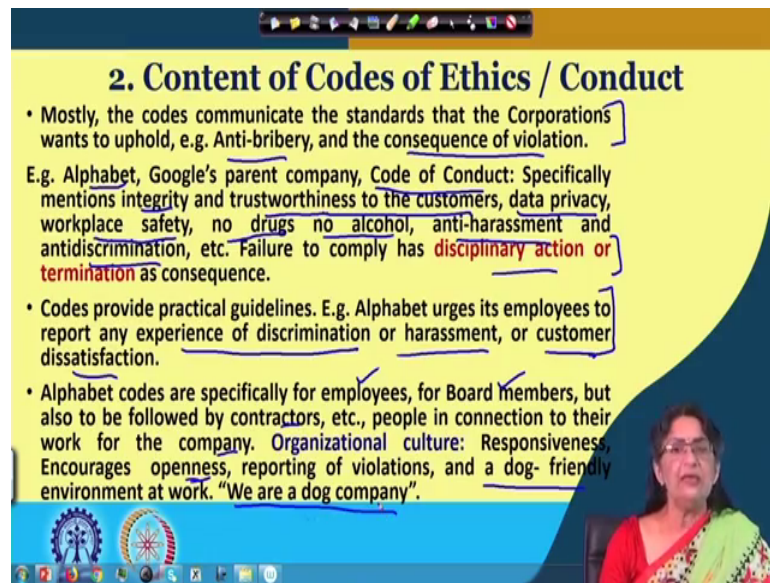
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Then comes the second component, its codes of ethics or code of conduct. What this is that in addition to the mission, vision and the values, these are explicit guidelines for expected behavior. The values believes that the corporations are there these are guidelines which align the behavior towards those values. So, you can say that this is where we get to see how the values are being put into practice by the corporation. From these codes of conduct, you can also read the organization culture from this. This is a component that is very widely used by the large corporations.

So, try tonight you if you want to explore a little bit visit the company websites at least three company websites of your choice, and try to see whether you have the mission you can detect the mission statement or the code of conduct and you will be able to see that.

Here is a change that as I said earlier code of conduct now has become much wider, earlier it used to be exclusively for the employees. Now, you will find that there are code of conduct for managers, for contractors for service providers, even for the board members, these are board of governor of the corporation. You can see that there are code of conduct even for them.

Now, what is there in the in the code of conduct, what is the content here? Typically as I said these are this is where you see the standards or clear criteria of expected behavior which is said for example the organization the corporation might say that we strongly believe in anti bribery policy or that there will be consequence of violation and so on. So, this is say telling to do this is how far you can go with your behavior this is where you should not go.

Let us take one more example here. This is alphabet all of you know perhaps that Google now is taken over by alphabet or this is the parents company and Google's parent company. And alphabets code of conduct is like this that the very specifically mentioned about few things one integrity trustworthiness to the customers ok. Those who are catering your service to you must be trustworthy for the customers, data privacy, workplace safety, no drugs, no alcohol policy, anti-harassment and antidiscrimination, these are some of the things that they clearly mention in their code of conduct.

There is also mention about that in case violations happen there will be disciplinary action or even termination as a consequence. In this we are talking about the content of the code of conduct codes often provide practical guidance for example, what to do, if I face this what to do. Alphabet, for example, it tells its or our urges its employees to report any experience of discrimination or harassment. And they also identify whom to whom, they can report this. For example, go and talk to your supervisor first about

experienced or harassment or if you have seen some harassment or a customer has complained about some product who to report it to.

Alphabet codes are for employees and for the board members specifically, but they clearly mentioned that they are also to be followed by all the people who are associated with the company. So, it might be the contractors, it might be the other vendors and so on. From this code of conduct I said you can read the organizational culture also a little bit. If you look into specifically into alphabets code of conduct, you will find that there they encourage openness. They say that you come forward and talk about your experiences.

And what I liked also is that they there is a dog-friendly policy. Then they in fact declare that we are a dog company, you can bring your cat, but your cat is going to probably feel a little uncomfortable, because we are a dog company meaning that you can bring your pet dog also to the workplace, and we are with it. And that shows some sort of warmth, that shows a certain side of organizational culture. So, this is this is an example of code of conduct what can be included in code of conduct.

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How do you make code of conduct or code of ethics more effective? You know all of us are cynics in our heart probably, we will say that you can have mission statement, you can have code of conduct, but finally nobody listens to them and these are just empty words. So, how do you make them more effective? And here is what research suggests.

First of all as you see some people have suggested that instead of imposing the code of conduct on organizational members include them when developing the code. This might be the solution. Then it would not feel like an imposition from outside, others have suggested that there must be some consequence clause. So, in case, there is a violation of the code, then what and there has to be clear articulation of what would be the consequence of that?

Researchers have also said that there has to be a proper follow through consistency throughout the organization. First of all if detected and then what would be the action taken, and there should be consistency between what the policy says, and what kind of action takes place in the organization, that itself will take care of how to make the code of ethics more effective.

Others have said make it part of the performance appraisal. Especially the managers performance appraisal should be based on whether there have been any ethical violation or any code of conduct violation. These are suggestions of course, but you can see where there are thoughts behind these claims how to make the code of ethics more effective.

Let me make also a point here that there are other kind of problems also that might come with a code of conduct. If you are a very large organization if you are a multinational corporation, then your presence is in 70 or 80 countries, and some of these countries may have very different national culture than yours.

You who is situated in a country your headquarter is in a different country, but you are operating in so many other diverse countries with very different culture which code of conduct are you going to follow. The local code of conduct where you are operating it which may be culturally very different, or the headquarter code of conduct this is a bit of a problem specifically when culturally the company's own country is very different from where the company is operating.

For example, if you are working in a country operating in a country where they do not they do not respect women. So, there might be even the local culture that you can you first of all you should not try to employ women, but even if you have employed women maybe they should be paid less for the same job. Whereas, in your own country this is not done and you think that is unethical in your country it might be also illegal. So, what do you follow, what would be the code of conduct here? And when can we say that the

cultural difference does not explain all the differences, when can we say that they might be doing that locally, but still it is wrong. So, what would the stance?

Now, this is where the solutions might come in this way that one that you might the company it has the corporation has to decide that we will not budge that we will follow universal code of conduct. This is the corporation and wherever does not matter where we are operating how different the culture is, we will follow a single code of conduct. For example, this is what Coca Cola does universal code of conduct for all their Coca Cola employees.

Or you can be what we scholars say a pluralist, pluralism here means that there can be a compromise. First of all you are going to have some core set of values which are nonnegotiable, and then you can allow you cannot allow any negotiation on those common values. But then you can allow some negotiation with respect to the local culture about few other things. So, what could serve as common values? For example, you might say that human rights forms the core values for my company's operation. If there is any compromise on that we will be able to do business here or we will not encourage that we will not accept that.

United Nations Global Compact also has some 10 principles that might serve also as your core values. Now, beyond this you might respect the cultural differences that you know if you want to give in, you do not given in to the core values, but you might say that if there are other minor issues, there we can make some arrangement to respect to show respect to the local cultures. So, this is what pluralism does that you do both you be very conservative about certain values, and then you those are your core values you stand for them. And then you also allow for some cultural differences to take in.

Third component is risk benefit analysis and management. Now, this is something interesting, we have talked about benefit and harm when we talked about utilitarianism. Here we are talking about risk benefit analysis and management. Managing risk is a major component for any business and reduction of risk of course, but here we are talking about particularly the risks that the companies run by neglecting or overlooking ethics.

Risk here you can understand it as an uncertain consequence. If it is a positive uncertain, but unpredictably something good happens well and good, but what we are concerned mostly about is are the negative consequences with respect to something that is not good for the corporation itself. Risk can be generally of two types; one is the financial risk you know which you want to avoid that is loss in monetary terms you know I mean we understand that business activities are never foolproof and never 100 percent certain that you have to work with certain uncertainty understood.

But what you then when you were playing with uncertainty even then you try to minimize the loss or avoid the loss and so on. So, when can that happen financial risk is you know the whether there is in bad investment or legal penalty for which the company loses money and so on, these are financial risk these are well known. But nowadays what is becoming a very large phenomenon is the social risk. Due to unthinking business

decisions, if there is any for example, human rights violations the society immediately jumps back and that is a social risk.

Or if by doing your business there is impact on the climate or you are unleashing unsafe products and technologies or there is rampant corruption, these are known as social risks. Why, because it can blow out of proportion, people are nowadays are more aware about them, and it can create a havoc for the company, because your reputation, your brand value, your goodwill, everything is at risk then.

So, the biggest outcome of the social risk is a reputational damage which reflects even in the market, market I mean share market and so on. So, underestimating risks can do a lot of harm to the corporation. Therefore, one of the major component in formal ethics management is risk benefit management.

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I will end this lecture with this example. You know this is a famous case from the 1990s where Royal Dutch or Shell actually underestimated the social risk, so that you understand what we are talking about here. Now, Brent Spar, the name of a oil rig that was located in North Sea. North Sea is a area where oil has been excavated for quite some time. Brent Spar was an old oil platform. And Royal Dutch company or Shell did not want to decommission it on the shore, I mean they probably wanted to save some money or trouble. So, they decided to sink it, because it was all to sink it in the deep of the North Sea where the rig was located.

Because their concern was as I was trying to say is majorly the financial cost of decommissioning bring it over to the to the shore. What Shell did not pay much attention to was the social risk. How, North Sea is an area if you look at the map, you will see that it is at the at the north of say United Kingdom, Denmark, so many countries Sweden and so on, of all these countries.

And there was a clear environmental cost of disposal of this old rig in the deep North Sea because there are the marine ecosystem is already under heavy pressure because of this you know oil related activities, the pollution that is there. And then sinking this ship was going to add to that, but Shell was not very aware about that or did not pay much attention to that.

What happened was that there was a spontaneous sort of a almost like explosive outcome. First Greenpeace got on, and they campaigned hard against the deep sea disposal because they are very careful about environmental damages. And in those times Greenpeace was quite I mean they were not very nonviolent. So, they tried occupying the rig. In fact, what you see here in this picture is the boat of Greenpeace trying to reach the oil rig, occupying means they wanted to climb up and then bring their flag and make demonstration and so on.

What followed was unprecedented Greenpeace was an NGO doing its own business, but consumers spontaneously boycotted Shell and that really hurt the company. And finally, when all of this rigmarole is going on what tipped the balance was the pressure from the governments. Look at the so many governments Germany, Netherlands, Sweden, Denmark all of them join hands in the support for the Greenpeace activism and that brought a company down to its knees.

So, and then there is a of course, it translates into loss financial loss for the company also, but this is just a lesson to see why social risks need to be managed and as a part of their ethics program. Now, this is where I am going to close the lecture today.

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We will talk about the other elements later on. I have given you some reference here, but overall we are now talking about the formal approach. And we will take up the remaining components in the coming lecture, all right.

Thank you very much.