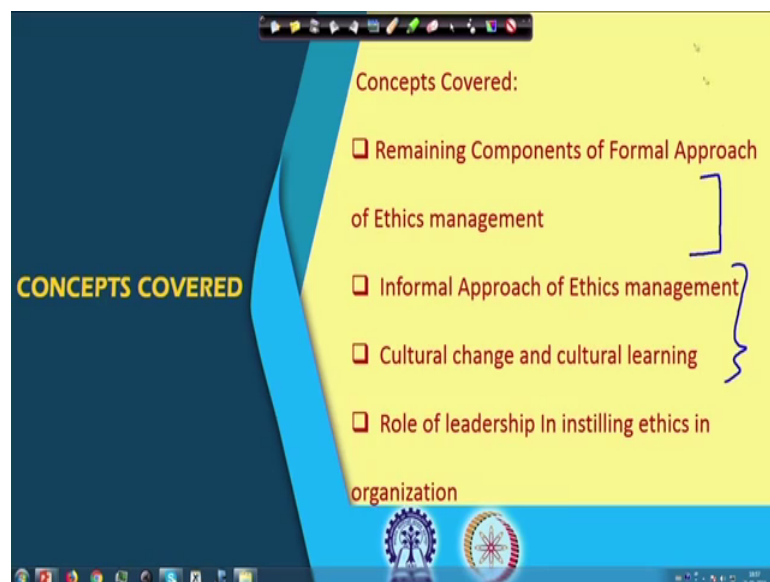


The Ethical Corporation
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Lecture - 13
Managing Ethics within a Corporation: Formal and Informal Approach

Hello, we are back this is our week 3 and we are into the lecture 13. Already I have talked to you about how to Manage Ethics within a Corporation the Formal approach and what are the components. And, we have already talked about three of them.

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But, today we will talk about the remaining ones not only that, I also going to talk about Informal approach, which is another kind of an approach. So, we will first of all finish talking about the remaining components informal approach and then go into and talk about the informal approach, this is our plan for lecture today.

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4. Ethics Managers, Forums, Committees:

- In some Corporations, designated officials or groups are appointed. E.g. General Motors, Walmart, Hewlett Packard
- Under various titles: Ethics Officer, Chief Ethics Officer, Ethics and Compliance Officer, Chief Compliance Officer.
- Usually a senior management official. E.g. At HP, Chief Ethics & Compliance Officer is the Senior Vice President
- Job : To prepare code of conduct, to train people, to monitor and audit compliance with both internal and external (government) regulations to prevent monetary and other kinds of misdeeds, etc.
- In India: Some Tata Group Companies are pioneers: Tata Steel, Tata Sons. Infosys: Integrity and Compliance Office. Reliance Industries: Ethics and Compliance Task Force.

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So, first of all the fourth component that we are looking into is some positions, designated positions created in the corporation for managing ethics. And the positions I have given the title like so, ethics managers, ethics forums, or ethics committees.

There are already in some corporations such designations available and I have given some names here of corporations where you can visit the websites and find out how that there are such designations. You might find these roles under different titles. For example, some corporations prefer to use the term ethics officer, or chief ethics officer, that is the other kind of CEO, or ethics and compliance officer, this is very common chief compliance officer and so on.

Usually it is from the senior management. Somebody is designated from the senior management. For example, here in HP, you will find that the chief ethics and compliance officer is the designation, and who serves that role is the Senior Vice President. So, it is not a trivial job to handle first of all.

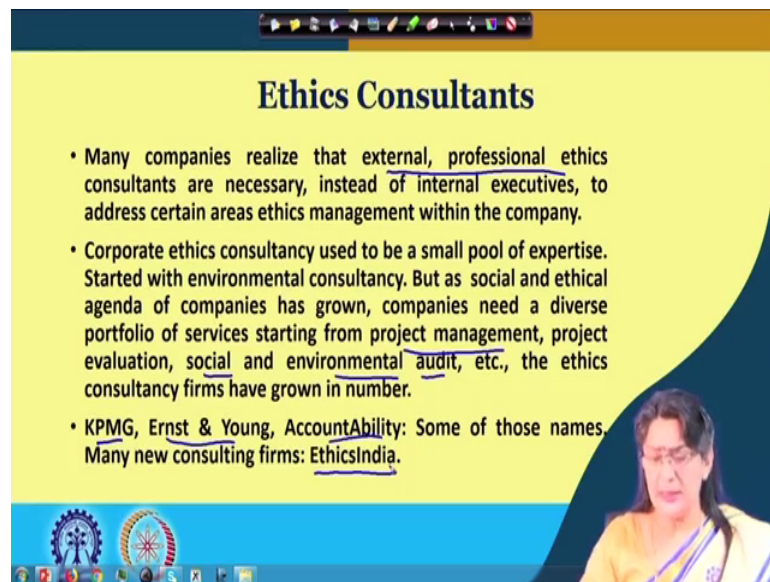
What is the role demand? There are various job specifications, but some of the common ones might be like this to prepare a code of conduct for the company, for the organization and to train people with that, or to monitor the compliance specifically the internal compliance, because the company will have policies, the company will have its own rules. And, but there are also external rules.

And, by external rules I mean the entire the related laws and also what there are specific guidelines that might be there for that organization, whichever segment you are working in; to prevent the kind of risks that we have talked about. It is not just financial risks as you know, but there are also other kind of risks we have already talked about this.

Now, in India there are notable companies, which are pioneers in this field for example, some of the Tata group companies have already such positions. Infosys has an office that they call integrity and compliance office. Reliance Industries has Ethics and Compliance Task Force. So, you can see the slow rise, but clear uptake on this component. I have talked about the ethics managers and the committees there is also as you see forums.

Now, when we talk about forum it means that it is a informal sort of a it is formal or informal place, where you can raise issues where you can discuss. Some companies I know that they encourage blogs, they encourage employee forums, they encourage a platform where people can talk about such issues. So, either way this is nothing, but giving a legitimacy a validity within the organizational structure, that this is where the organizational or the corporate ethics will be managed.

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Ethics Consultants

- Many companies realize that external, professional ethics consultants are necessary, instead of internal executives, to address certain areas ethics management within the company.
- Corporate ethics consultancy used to be a small pool of expertise. Started with environmental consultancy. But as social and ethical agenda of companies has grown, companies need a diverse portfolio of services starting from project management, project evaluation, social and environmental audit, etc., the ethics consultancy firms have grown in number.
- KPMG, Ernst & Young, AccountAbility: Some of those names. Many new consulting firms: EthicsIndia.

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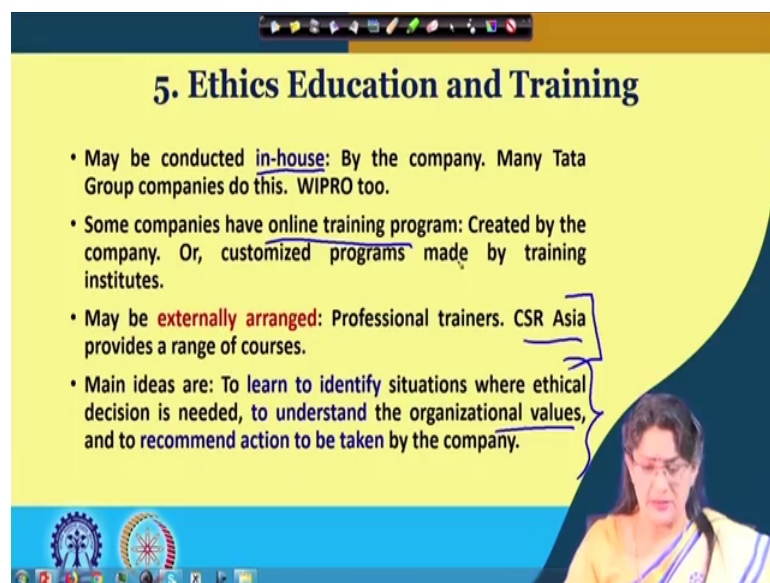
Next is ethics consultant. Now, sometimes with though you have designated positions and people to look into ethics of the organization, but sometimes it may not the expertise may not be sufficient. So, in such cases if the issues too complicated or if the issue is not within the knowledge domain of the concerned officials typically, external help,

professional help is sought; just like any other consultancy. So, there are these entities called ethics consultants.

Now, corporate ethics consultancy it may sound to you very very unfamiliar or very something very new you are right, it used to be a very small pool of expertise. It started with sort of environmental consultancy and slowly the rise has been like this that, as the social agenda of the corporations grew in size, in depth, in breadth, and as slowly the kind of services that are related to this started to increase in number say project, management project, evaluation, or some kind of social audit, or environmental audit, the help the professional help, the availability of that professional help also has grown.

Now, who are players in this area you might see KPMG does the sort of a job, Ernst and Young, AccountAbility is a well-known firm. In India this is a rather new sort of a service that we get to see, but there already I see the presence of some organization called ethics India; so, ethics consultants that is also something to look out for.

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5. Ethics Education and Training

- May be conducted **in-house**: By the company. Many Tata Group companies do this. WIPRO too.
- Some companies have **online training program**: Created by the company. Or, **customized programs** made by training institutes.
- May be **externally arranged**: Professional trainers. CSR Asia provides a range of courses.
- Main ideas are: To learn to identify situations where ethical decision is needed, to understand the organizational values, and to recommend action to be taken by the company.

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Next is ethics education and training the fifth component. Now, this is easily understood that people have to be trained. It is one thing to have a code of conduct; it is one thing to have a written document, where people have to be trained. Now, how do you manage that? Now, there are more than one ways people the corporation might choose to have an in-house sort of a training. And, many companies opt for this, many Tata companies are

well known for their orientation, the value orientation right at the beginning of the career and so on.

Some companies have online training program; you know created by the company, or they have engaged some external company, professional company, to customize the programs for their corporate stuff. So, this is possible and then there are also video simulations, you know I mean training through simulations of situations, where through which you sort of learn and that can be an annual exercise and every year you sort of to go through, because the issues do not remain the same.

So, you need to update yourself, you need to find out what is the appropriate response in such situations and these things help. Among the external help there are some professional trainers also available these are companies which give exactly this kind of service to educate and train the employees of corporate sector.

CSR Asia has been doing remarkable job for quite some time now. The main idea is to enable people to identify ethical issues, to address ethical issues, and to understand clearly the organizational values, that are there and what kind of actions can be taken under the circumstance. So, ethics education and training was our fifth component.

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6. Stakeholder dialogue, consultation and partnership

- It is the duty of a Corporation to acknowledge and to respect the rights of the stakeholders. To not acknowledge, is to run risks: Agitation, protests from employees and customers, non-cooperation from suppliers, sanctions from Government, etc. First and foremost duty is to engage with them.
- Various ways to engage with the stakeholders: From a distant survey to assess their needs to including them in corporate decision-making. Holding dialogues, consulting them on key relevant issues, and even partnering with them on some projects.
- Multiple stakeholders. In order to strategically manage stakeholder relations, organizations need to learn how to prioritize competing stakeholder claims: How to identify which stakeholder matters most to the Corporation, and who to deal with and in which order.

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Next is an important component, which is to engage with stakeholders. We have already understood what stakeholders are, these are people 1 person or a group, who can affect

the organizational objectives, or can be affected by the organizational objectives we have been through this. Now, we have also understood that it is a moral duty, it is an ethical obligation on the part of the corporation to acknowledge to recognize the rights of a stakeholder and also to respect those rights.

So, there is this moral argument that you cannot ignore them, it is an obligation on the part of the corporation to acknowledge and to respect the rights. Not to acknowledge, if you want to think in terms of consequentialist ethics which we have learned by the outcome, then the clear outcome today in today's world is to run certain risks. What kind of risks well there can be agitation from the stakeholders ok?

If for example, if you are not paying any attention to the employee demands, there can be protests, there can be serious repercussions at times. If all for from the customers the grievances are not being addressed or not even being heard, you know they have a right to be heard, but you are, but the corporation is not listening to them.

So, there would be naturally customer, resentment, expressed in many different ways, there can be non-cooperation also from various stakeholders and so on. So, the very first point is that first and foremost duty for the corporation is to engage with the stakeholders. In an ethics management this is a component which means that you have to engage with stakeholders.

Now, how do you do that? Now, there can be more than one ways ok. And, you can think about a spectrum or a range of ways in which you can engage, it can be a distant survey for example, the minimal, you can get it get a marketing organization to do your survey for you know as people do for product launching, just to assess what the stakeholders, or the community needs, or the customers need, this could be a minimal. From that the other end of the spectrum is to really include the stakeholders in corporate decision-making.

What we are talking about our key strategic decisions, but which also affect the stakeholders, to include them in such decision making, to hold dialogues with them, to consult them, on this key matters and then even to partner with them collaborate with the stakeholders ok. These are today's ways of engaging with stakeholders. So, this is an important point and on this many companies falter, because they do not know exactly what to do? They are sort of suspicious about opening up to the stakeholders and they are

scared, that too much of engagement is going to derail them from their corporate objectives, but it does not have to be that way. And, if you know how to control the process then, it is really it the payout is really good and you have everybody support also.

Now, we have a situation when you are engaging with stakeholders you need to remember that there is not one group that you are trying to engage with there are always multiple stakeholders. So, you have the employees, you have the customers, you have the suppliers, you have government, you have press and you have local community etcetera etcetera. Now, how do you manage all of them, how do you engage with all of them? And, particularly when you are trying to run your business; obviously, your priorities that.

So, how do you manage the time, do you listen to all of them at the same time, or do you try to prioritize. The second option would be more sensible to prioritize, when you cannot please everybody at the same time, how do you prioritize? So, this is the important question to ask how do you want identify among these which stakeholder group matters the most to the corporation, for the time being and who to deal with and in what order you know. So, this need some discussion.

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Prioritizing the stakeholders (Mitchell et al 1997)

- 3 factors to determine perceived salience of stakeholders:
 - ✓ Power: Perceived ability to influence the organizational goals.
 - ✓ Legitimacy: Perceived appropriateness of stakeholder's actions
 - ✓ Urgency: The perceived degree of need for immediate response.
- If a stakeholder has any one of these: Latent stakeholder. Can wait.
- Any two: Expectant stakeholder. Fairly important. Need to keep in mind.
- All three: Definitive stakeholder. Most important. Must engage with them quickly to develop a proper working relationship.

So, our next topic is that, how do you prioritize the stakeholders? When you have too many of them or multiple? The research suggests that there can be three factors, you can

or you can prioritize them according to these three parameters. Now, let us first understand this we are talking about how the corporation perceive the stakeholders? So, it is from the perspective of the corporation and what we are trying to assess here is the perceived importance perceived importance all right, because perceptions do matter and how you the corporation look at the stakeholder group.

Now, what are the ways you in which you can perceive? For example, first one is power. Whether the corporation sees the, the stakeholder as somebody who can influence the organizational goals, the by definition stakeholders can, but we are talking about the perceived ability, how able is it, how powerful? Second is legitimacy; legitimacy as in how does the corporate corporation perceive, the appropriateness of the demands of the stakeholder or the actions of the stakeholder ok. So, that is legitimacy. And, third one is urgency; perceived degree of need immediacy, immediate attention that perception.

Now, these are three parameters and the research suggests that you know you then you need to use these parameters to categorize your stakeholders. So, the first one is that let us see who has what? If the stakeholder has only one of these parameters anyone say it is very powerful ok, but not legitimate not urgent etcetera, let us call them latent stakeholder. And, they can be made to wait. Now, can wait does not mean that you do not listen to them or you do not address to them.

It is a matter of you know when you are juggling balls you know some balls are going to be up in the air. So, who can you keep up in the air in the meantime when you are juggling with the other two balls? So, this is that group somebody that you need to come back to them, but you need to you can start the negotiation, you can go a little slow on this, but this is how you go. Now, you might ask me that, what if the stakeholder is urgent can we make them wait, because it is very urgent, they are not powerful, they are not legitimate by their urgent. As, I said if there have one of the categories, one of the parameters they are latent stakeholders.

So, you if they are urgent, but you do not have the other two you need to start the negotiation with them all right, but it does not require immediate resolution, but you can still start negotiating. The second one says, that if the stakeholder has two any two of these parameters, then they are expectant stakeholder, which means that they are fairly important. And, we need to keep that in our mind, I mean in which order we are going to

pick them up this is the second degree. And; obviously, the most important group is the definitive stakeholders who have all three of these parameters.

So, they are powerful they are urgent and their demands are legitimate, you need to immediately get to engage with them; so, that you can develop a proper working relationship. So, this is some kind of a proposed solution to the question about, how do you manage multiple stakeholders?

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Stakeholder management

- **Different forms of Corporate-stakeholder relationships:** (a) Open mutual hostility, (b) Occasional 'healthy' conflict, (c) One-way support from Corporation: Philanthropy, sponsorship, (d) Mutual support: Strategic philanthropy, (e) Dialogue: Discussion on a specific issue or project, or long-term issue, (f) Task force: Jointly formed cooperation for a task, (g) Joint venture or partnership: Formal partnership, mutual resource sharing.
- **Problems to keep in mind:** (a) Stakeholder management is time-consuming and expensive process. (b) Uncontrollability: Outcome uncertain. (c) Culture clash: The two sides may not always see eye to eye. Value and priorities clash.

There can be different kind of relationships you understand that it can start from very very hostile sort of a mutual hostility relation, to you know occasional 'healthy' come you know refutation of each other's charges, it can be one way from the corporate to the stakeholder. For example, when you are donating to some cause or when you are sponsoring a sports event for example, it is a one way or it can be a mutual support, which is what we see in case of strategic philanthropy.

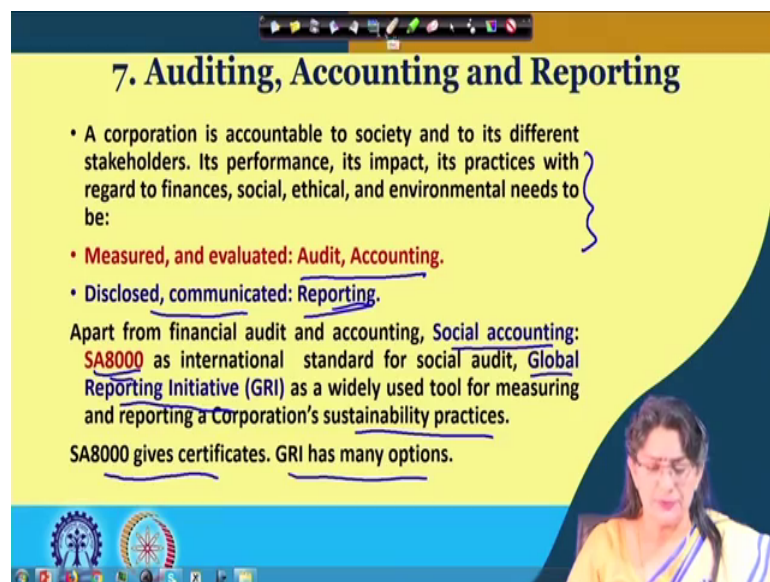
So, you do something and you get some favor in return and so on. But take a look at this relationship this is dialogue. So, on some specific issue or project or for some long term issues, you can sit down with the stakeholders and hold dialogues, you know this is something that we see often in the European sector and this is task force. So, forming a group with some members of the corporation along with the from the stakeholders to for a for a specific task. And, this is what I was talking about the joint venture or the partnership.

So, you share a lot of reserves, but you take up a sum a project formally, it is a partnership so, you go. Now, this is how you manage stakeholders what are the downsides of this, as you can imagine that this is not an easy process, because it requires lot of time. And, for the company it is an expensive process, because you are you have to keep in mind that the business is trying to do it is business too, but you cannot avoid it. So, how do you manage it, how well you manages is suddenly an important question.

Second is that the outcome of these kind of engagements are not always very certain, things can go bad very easily if you do not know how to handle, because people as you all know a relationship with people are often you know the hardest ones to predict about I mean things are going fine in one moment and then suddenly in the discussion some issues come up and it goes all right.

So, there is that. And, then also culture clash meaning that two sides may not always see eye to eye, which is what often happens with the corporation and the employee groups, or the corporation and some of the NGOs and so on this is what we have seen, but nonetheless this is not something that we can ignore at all.

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7. Auditing, Accounting and Reporting

- A corporation is accountable to society and to its different stakeholders. Its performance, its impact, its practices with regard to finances, social, ethical, and environmental needs to be:
 - **Measured, and evaluated: Audit, Accounting.**
 - **Disclosed, communicated: Reporting.**

Apart from financial audit and accounting, **Social accounting: SA8000** as international standard for social audit, **Global Reporting Initiative (GRI)** as a widely used tool for measuring and reporting a Corporation's sustainability practices.

SA8000 gives certificates. GRI has many options.

Last point about formal approach is the auditing, accounting and reporting. See, we are talking about managing ethics. So, since that is the main point. Therefore, the activity related to what we call the corporate ethical activities needs to be somehow measured. Measuring and evaluation comes here, there has to be an audit and accounting.

So, if you are talking about your social performance it can be audited, if you are talking about environmental performance it can be audited and accounted to. Once that is done then the data, then it is reportable data and there has to be communication. Nowadays communication is required by many governments including Indian government, but also for your investors even for the society this reporting is becomes very important. So, this is part of the formal approach.

Now, what kind of audit we are talking about now, if you if you know about financial audit you know that there are this kind of audit firms, but when it comes to social performance. How you are performing socially this is known as social accounting in itself and there are standard tools available. This is for example, is one SA 8000; it is an international standard for measuring social performance by the corporations.

You may have heard about this also Global Reporting Initiative in short GRI. And there are versions of it in GRI 4 is probably the latest one, but it is a widely used tool that the corporations use for measuring and reporting are corporations sustainability practices, which includes financial, social, as well as environmental. You will if you explore the websites you will find that even some large Indian corporations, Indian owned corporations, also utilize this kind of GRI and other tools.

The difference is that SA8000 certifies whereas, GRI gives you many options starting from self-certification to third party appraisal and so on. And, there are gradations in GRI certifications also.

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Managing Ethics: Informal Approach

- Research shows that formal ethics programs can certainly have positive impact on the behavior within and in connection to the organization.
- Yet, it alone does not guarantee effective ethics management. Enron, perpetrator of one of the biggest corporate financial frauds, had a code of conduct.
- What matters is an ethical organizational culture. Everyone in connection to the Corporation must see that the “ethics walk” is consistent with the “ethics talk”. Formal policies must go beyond mere words and get translated into real actions throughout the organization.

So, that concludes our discussion on the formal approach, but I said that we will do also informal approach in the same lecture. So, let us talk about this is important, because you know research establishes, that having the formal ethics program are certainly beneficial for companies for our corporations to have ethics instilled, but it alone is not sufficient. It is not it cannot guarantee effective ethics management unless there is the support of the right kind of organizational culture.

See, Enron we will talk about these cases you know maybe perhaps next week, but Enron if you know about this company, it was one of the biggest accounting frauds. They had a code of conduct. So, they had some elements of the formal approach in place in the organization nonetheless, they committed the worst kind of frauds that is possible by a corporation.

So, what matters therefore, is to have right kind of by right kind of I mean ethical organizational culture. What you want within the corporation is that the “ethics talk”, does not remain only ethics talk, there has to be also the “ethics walk”, it must show up in practices. So, beyond the words we need to translate that into actual actions.

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Managing Ethics: Informal Approach

Most unethical behavior in business is supported by the organizational context in which it occurs:

- Either through direct reinforcement of unethical behavior
- Or by a benign neglect. ✓

• Both equally effective to strengthen and to spread the unethical practices.

• Upshot is : For formal ethical programs to change behavior, they have to be part of a larger, cultural system which supports the ethical learnings on a daily basis. Ethical culture provides informal systems, which together with formal system, will support ethical behavior.

4. The influence of the peers, role models, is a powerful factor.

- Most people are followers, when it comes to ethics. That is, they follow the others, particularly the seniors, or the higher-ups. When ordered or instructed to do something unethical, most are likely to do so.

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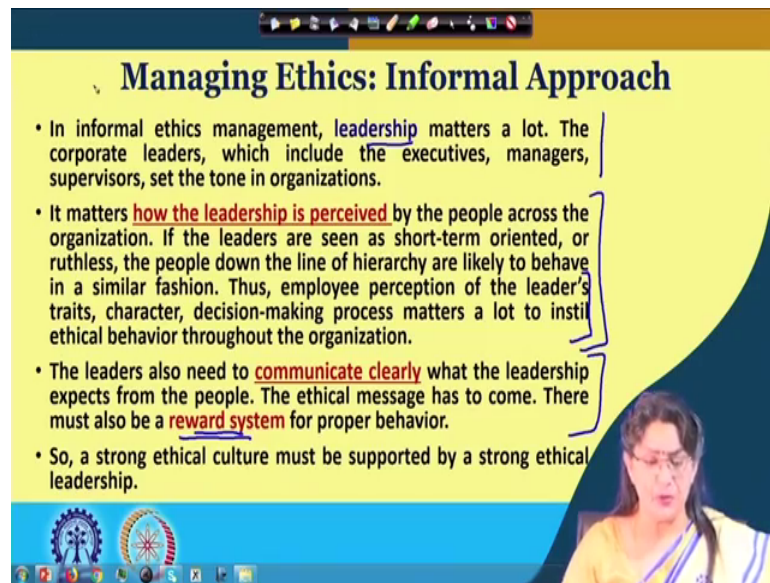
So, this is quite understandable that you know when in a organizational setup in a corporation unethical behavior does not show up in vacuum, there is a context. And, the context is the organizational culture and often misconduct ethical mal practices are either condoned, condoned directly in the sense that people actually take it as a systemic practice, or they are overlooked benign neglect. But, what happens is that it gets more and more prevalent within the corporation.

So, the main point here is this that, if you want your formal ethics program to really take root in the corporation and modify the behavior within the corporation. Then it must be supported by a larger, cultural system which is the organizational culture, which supports this formal learning's on a day to day basis otherwise it does not happen.

Now, this culture is informal. So, you need to have the culture in place in that the formal system of ethics is going to work wonders. Why we said the culture, because and the informal network is that people actually learn from each other, they look at each other and most of us are followers. So, they look up to the seniors, they look up to the peer group and follow whatever is going on.

There is another situation where people are instructed or ordered to do something that is not ethical. For example, you may have found some anomaly in the data, but your senior might say that you know I mean do not bother about it or just do not report about it something like that. There are notable cases like that and people usually follow that.

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Managing Ethics: Informal Approach

- In informal ethics management, **leadership** matters a lot. The corporate leaders, which include the executives, managers, supervisors, set the tone in organizations.
- It matters **how the leadership is perceived** by the people across the organization. If the leaders are seen as short-term oriented, or ruthless, the people down the line of hierarchy are likely to behave in a similar fashion. Thus, employee perception of the leader's traits, character, decision-making process matters a lot to instill ethical behavior throughout the organization.
- The leaders also need to **communicate clearly** what the leadership expects from the people. The ethical message has to come. There must also be a **reward system** for proper behavior.
- So, a strong ethical culture must be supported by a strong ethical leadership.

Therefore, what we are saying here is that that there are few things to put in context here, one that in the organizational culture all of us would agree on this first is the leadership matters. So, corporate leaders they must set the tone, who are they the top management, executive managers, or seniors, or supervisors, who everyone this is one how do they behave. Second point is how are they perceived I told you perceptions matter.

So, how the rest of the employees perceive the leadership? If, the leaders are seen as cutting corners, short term oriented, or are people you know they are just bother about you know somehow getting things done people emulate that immediately.

So, in a way how the people perceive the leaders matter a lot in changing the behavior down the chain; third is communication the leaders must communicate what they expect, what they desire, as desirable behavior. And, that needs to come through and we also would like to insist upon that that good behavior must get some reward for that. So, a strong ethical culture is the actual bedrock for having managing ethics within the organization.

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Managing Ethics: Informal Approach

- Organizations with ethics problems should adopt a **culture-change** approach to effectively address these, and a **cultural learning of values** informally.
- **Culture change:** The leader must be seen as a 'Moral person', with character, and leader must articulate and personify the standards the organization is aiming to transform into.
- Possible problems: Time consuming process. And there must not be credibility-gap.
- **Cultural Learning:** Smaller employee groups are encouraged to come with their own ethical decisions, to be able to make responsible choices on their own. Dialogues, and critique among the groups are encouraged. The role of the leaders is that of participants and empowering agents.
- Possible problems: Possibility of giving in completely to fragmented employee decisions.

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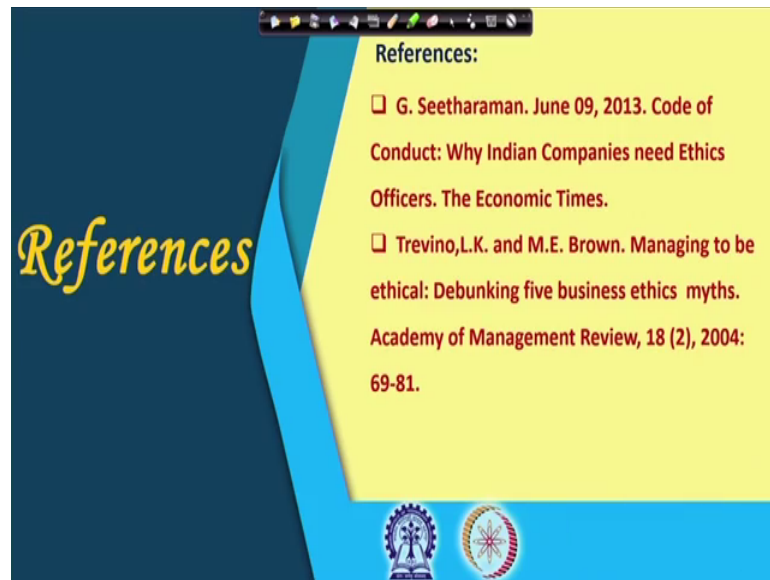
So, there are two informal approach we will finish like this, that you can think about changing the culture and the organization. Meaning that the leaders take the main role, to set the tone, to set the example and the rest of the people sort of follow this is an ideal situation, but it takes time. Because, it is an organization wide change it does not happen overnight. And, it the values need to be slowly taken in you know you cannot suddenly overnight change everybody or the set up.

So, there is this problem about this approach, but it is very effective you can manage to get it done. Second there must not be any credibility gap meaning people look for consistency. If, you say in one way, but you behave in some other way, you know this gap is the credibility gap, if there is credibility gap, the culture change is never going to be awesome. The second one is cultural learning. Now, this is not about following somebody from the top, but smaller employee groups are given some independence and encouragement to come up with their own ethical solution to specific issues to make responsible choices on their behalf.

So, and they are encouraged to critique or even have dialogue and so on. So, this is another approach that is known as cultural learning, you learn from the situation, how to handle this? Now, this is the downside of this is that you know this in cultural learning the top management sort of play a passive role, their mentors their enablers, but they are not really participants. So, what might happen is that their groups come up with very

different kind of fragmented solutions and the whole picture is not clear to the to them, but you being at the top you sort of have to give in. Because, if you allow this kind of cultural learning, there has to be a coordinated or concerted activity if you are encouraging this all right.

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So, this is where we will finish this lecture that we have covered the formal approach whatever components were there and then we have talked about also the informal approach. So, with this let me conclude this lecture here we will come back with more in the next one.

Thank you.