

Being Ethical in Business

When PWC Davidar, IT Secretary to the Tamil Nadu Government addressed the sales executives from the IT industry at a seminar recently, he rued that one of the biggest problems of manufacturers, vendors and dealers of IT products is that of “zero transparency”. A vendor would sell a server to Tamil Nadu Government for Rupees two to three crores and sell the same type of server to Pondichery Government for Rupees one crore. The client has no clue about the market price and this is what Davidar termed “lack of transparency”. This lack of transparency will eventually destroy the industry in two or three years, opines Davidar. Where has the trust gone, rued Davidar. Perhaps, he was giving voice to the feelings in most of us.

Davidar also narrated a story of how his father who, as a fertiliser salesman, would not recommend expensive fertiliser to a farmer if he felt that it was not needed. Surely, as a fertiliser salesman, he would have profited from the sales but he put the trust of the customer first.

Compare this behaviour with the statement of Michael Miles, CEO of Philips Morris, a tobacco Company in the US, “I see nothing wrong in selling people products they don't need. I see nothing wrong with (tobacco) business...”. You may wish to give full marks to Michael for his honesty; at least he has been speaking openly of what he believes. But would you consider him ethical?

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Do loyalty to organisation / profession and loyalty to the customer conflict in such cases? I see no conflict. Marketing is often confused with selling. According to Peter Drucker, “The aim of marketing is to make selling superfluous”. The implied meaning of Drucker's statement is that if marketers are able to identify unfulfilled needs of the customers, they don't need to be selling things that are not required. Peter Drucker opines that the purpose of business is customers and not profits as is normally believed. Profit is a by-product of customer satisfaction.

The fertiliser salesman in a small town may not be as “educated” as the CEO of Philips Morris, yet his ethical compass is stronger than the rest. Training people in analytical skills may not turn them ethical as the case of Jeff Skilling, CEO of Enron and a product of the illustrious Harvard Business School (HBS) demonstrates. Some things else needs to done. That is when a course called Leadership and Corporate Accountability was introduced at HBS in 2005. Even then, one may be “educated”, well versed in theories of ethics but may fall short in implementing them. I use the word educated in quotes for, *knowing is not doing*.

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I believe that none of us want to be unethical. Everybody wants to be happy and be happy with a clear conscience. The pursuit of happiness is one of the purposes of life, *telos*, as Epicurus would say. Philosopher Epicurus wrote that ethics “Deals with things to be sought, things to be avoided, with ways of life and with the *telos*” (Hartman, et al., 2008). So, where is the difficulty?

Most of the time we know what is right and what is wrong, but knowing is different from doing. Not everyone has the fortitude, strength of character, or motivation to act in ways that we know is good for us in the long run.

The bottom line is necessarily unforgiving. The pressure for “results” is intense. Correspondingly, the temptation to cheat is greater in business.

What is Business Ethics?

To answer this question, one need to ponder, is business different from life in general? Are personal ethics and business ethics different? The article, “Is business bluffing good?” by Albert Carr makes an excellent case as to why business is different from personal life and why the frame of reference needs to be different. Not be swayed by one particular thought, there are others such as Joseph DesJardins who raise significant and persuasive arguments against Carr's argument.

Nobody will question that the *Raison-d'etre*, literally, the reason for being, of business, is profit. Business ethics is an application of ethics to specific case of business. What is the specific case being referred to? While it is accepted that business has to make profit, it has to make profit in ways that do not harm individuals or a society as a whole. Profit is legitimate, profiteering isn't.

In simple terms, business ethics comprises the principles and standards that guide behaviour in the world of business.

Is Ethics good for business?

Are strong ethics good for business? There are several cases of ethical companies prospering. Infosys Technologies has followed the high ground of ethics and prospered.

On the other hand, there are perfectly ethical companies going belly up. Malden Mills is case in example of a perfectly ethical company closing up. When fire broke out in the Malden Mills, Massachusetts, US in 1995, the owner of the mills, Aaron Feuerstein, decided to rebuild the mills instead of the easy route of collecting the insurance and closing the factory. In fact, he promised to continue to pay the salaries and medical benefits of the employees till the factory was rebuilt. Feuerstein was guided by the “Ethics of care” and not by utility.

Without suggesting that Feuerstein was, in any way, incompetent, I wish to note that what today's competitive world needs is an ethical company that is competent. One cannot imagine an incompetent and ethical company to succeed any more than a competent but unethical company succeeding in the long run. Infosys stands a testimony to the fact. As narrated by Narayan Murthy, the founders of Infosys after hours of passionate debate based on data and facts, decided to strive to become India's most respected company, not necessarily a software company with highest revenue or profit. Integrity has been the life blood of their existence as Infoscians. One of the toughest decisions they had to take was choosing integrity over talent in the case of an extraordinary individual they let go. Respect comes from creating trust and confidence in

every transaction with the stakeholders. Performance brings trust and confidence, trust and confidence brings respect, respect brings recognition and recognition brings power. This is the mantra at Infosys. No wonder, the mission statement of Infosys is “*Powered by Intellect, Driven by Values*”. Value is at the driver's seat.

But today, in general, business ethics is disturbing as we see examples of companies that may not be considered ethical but prospering. Who can forget the movie “Guru” by director Mani Ratnam? As business people, are we placing the bet on a wrong horse by being ethical? With increasing awareness consumers prefer ethical companies. Employers prefer ethical employees. Employees prefer ethical employers. So, being ethical will be no more an option but a categorical imperative.

Setting aside the utility of being ethical, as an article in *The Economist* put it, “Ultimately, companies may have to accept that the virtue is sometimes its own reward.”

Now let us examine a strategy for being ethical and to succeed.

Strategy for being Ethical in business

The first step in the strategy for being ethical in business is to recognise and be convinced that ethics is good for business. At the risk of repetition, I would say, to be a successful manager, one cannot imagine being incompetent and ethical any more than one can imagine being competent but unethical. So, develop competence as much as ethics in your chosen field.

The best way I can respond to the sceptics of business ethics would be to quote Chris Moon and Clive Bonny: “Many remain

unconvinced by the business ethics movement. Business ethics matters because there is plenty of evidence that unethical behaviour can cost a company its reputation, hard cash, and reduce share price. Furthermore, companies that are perceived as ethical are more likely to build trust among their shareholders, employees, customers and wider community, and this must be good for business.”

The second step in the strategy is to identify the wellspring of ethical thought. Which behaviour is considered ethical? Interestingly, in a survey on ethical views in business, 50% of the respondents indicated that the word “ethical” meant “what my feeling tells me is right.”

However, there is a difficulty with this line of thinking. There have been countless instances in history when people believed that what they were doing was “right”, while most others believed the act to be “wrong”. It is possible that Mr Ramalinga Raju might have believed that he was doing well to his company, Satyam, while he was fudging the book of accounts. When one embarks on this path, it may be too late before realising that one is riding a tiger and it is difficult to get off without being eaten.

The Indian concept of *Shreyas* and *Preyas* may help make such an ethical decision. In the Indian tradition, emphasis is placed on *Shreyas*, the long-run good rather than on *Preyas*, the immediate or the expedient. So, focus on *Shreyas*. As conscientious leaders are not developed overnight, don't be too critical of the go-getter.

As a third step in the strategy, we need to train ourselves to analyse ethical dilemma.

Ethical dilemma comes into play when two or more of our values conflict. For example, assume yourself as a Manager who cherishes equally values of justice and mercy. Should you, as a Manager, overlook a glaring mistake by a subordinate whose son has been hospitalised? Justice argues one side and mercy the other, and both are right.

You now face an ethical dilemma. You may resort to *some form* of decision making based on gut feeling or what one calls as instinct. But then, our gut is not always trained to make complicated ethical decisions. We need to train ourselves to analyse ethical dilemma at times when we are not actually faced by them. That way, our minds are unclouded and the process of learning is better. We can then hope to be equipped to handle the situation when it actually occurs.

As the fourth step in the strategy, practice deferred gratification. One of my good friends once remarked, "It is easy to be ethical when the money involved is small. What if the stake runs to billions"? Point well taken, so get started with small things and go on to larger things and values! The story is said of a king of Mysore who used to carry a calf on his shoulders climbing up the Chamundi hills as apart of his physical training. Overtime as the calf grew big, he was eventually carrying a full grown bull to the astonishment of the onlooker, but did he feel the pain of training?! Start young, it is never too late!

As a fifth step in the strategy, develop a protective ring around you. After all, the world has and will always have its share of black sheep. Develop ethical customers, vendors and

clients. The law of the universe is "Birds of the same feather flock together".

The steps indicated are neither linear nor exhaustive. So, experiment and find out what suits you best.

Conclusion

If business is all about strategy, being ethical is a good strategy. There may be a price to be paid in the short term but rich dividends can be reaped over the long term. Surely, Narayana Murthy and his friends started with a meagre ten thousand Rupees but now, Infosys is a star. Ethics and competence, in that order, is at the heart of their strategy. There are other examples of other ethical companies such as Tatas which reinforce the thoughts.

In the current business environment, the compensation package for most senior executives weigh one thing above all else- decision making skills. Decisions have to be based on values as much as on economic considerations.

For those who do not subscribe to the ethical thoughts, law, either man-made or otherwise (call it *Karma*, if you may) will catch up. You may afford to be cynical. For some time, that is.

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