

Round Table

Business and Ethics

Narender Dhand



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Editorial & Administrative Address :

Indian Institute of Management, Bannerghatta Road, Post Box No. 4113, Jayanagar H.O., Bangalore - 560 041.

Telephone : 91 080 6582450

Fax : 91 080 6584050

Email : review@iimb.ernet.in

Website : http://www.iimb.ernet.in/review

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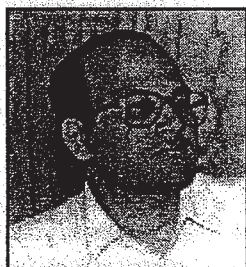
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Round Table

Ethics in Business: An Overview

Rishiksha T Krishnan



Rishiksha T Krishnan is Associate Professor, Corporate Strategy and Policy, Indian Institute of Management Bangalore. rishi@iimb.ernet.in

Recent events in the corporate world have brought the issue of ethics in business into the spotlight once again. How can institutions design and offer management education programmes that can create managers who will be able to keep their companies from falling into the quagmire of unethical business? While a number of management institutions offer courses on business ethics, little is known about the effectiveness of such courses. To address this issue and share information on different possible approaches to teaching business ethics, the Indian Institute of Management Bangalore organised a national workshop on teaching business ethics earlier this year. The objectives of this workshop were:

- to understand the challenges in teaching business ethics in the Indian context
- to understand the aspirations of our students, to whom such courses are addressed
- to identify alternate paradigms of teaching business ethics
- to identify critical areas to be addressed in making business ethics teaching more effective

This round table feature has its roots in the workshop on ethics.

We were fortunate to have two of the doyens of business ethics teaching addressing the workshop. Prof S K Chakraborty set up the Management Centre for Human Values at IIM Calcutta about 10 years ago and is renowned for locating his enquiry into the ethics of business in the Indian ethos. He believes that some amount of exhortation is a prerequisite for subsequent debate and that the faculty member teaching a course on ethics in business must set a good example in order to build the students' ethical stamina. Prof R C Sekhar does not distance himself from the Indian context, but adopts a more broad based approach based on philosophies from diverse cultures, and a classroom design to promote meaningful dialogue and discourse. Their individual contributions as well as their discussion with Profs C M Reddy and Mira Bakhru give us the opportunity to investigate the nu-

ances of their respective approaches. Fr Cyriac raises the basic question about whether ethics can be taught, before concluding that ethics and moral values can be discovered through introspection and reflection and it is up to the educational programmes to provide an opportunity for students to do this. Providing the brick and mortar of teaching ethics courses is Prof Prajapati, Head of the SK School of Business, North Gujarat University.

To be able to communicate effectively with students and have even a small chance of affecting their value positions, it is essential to first understand who our students are and what they stand for. A study by Profs Rishiksha T Krishnan and C M Reddy at IIM Bangalore shows that the students are idealistic, but caught between their ideals and the world as it is. By and large, they are self-centred and individualistic, but not in a vicious way. This suggests that if they are provided with the right environment, management graduates from our business schools may pursue their ideals and enhance ethical behaviour. Prof Abha Chatterjee of IIT Kharagpur explores the dimensions of ethics with budding engineers through fiction. Two corporate perspectives – from S Janakiraman, Co-founder of Mind Tree Consulting and Narendra Dhand, Co-founder of Micromatic Grinding Technologies – show that it is possible to build organisations that support positive values without detracting from performance. Open communication, fairness towards all and discipline on the part of organisational leaders are three attributes that stand out across these two organisations. Dipankar Gupta, a Professor at Jawaharlal Nehru University and Consultant to KPMG on business ethics also underlines that ethics begins at home. He stresses that there is a difference between corporate social responsibility and philanthropy. He raises an interesting point that large companies with a varied employee base face more challenging ethical issues and yet their executives may also be more enthused to face up to these issues. Profs Rajneesh Krishna and Atul Tandan of the Mudra Institute of Communication bring home the cultural conflict inherent in the Indian business situation.

Finding a model to ensure ethical behaviour will be as elusive as the alchemists' quest for a way of converting base metals into gold. More so, in India where the atmosphere is far from conducive to ethical behaviour. Yet, heightened public opinion and assertion by citizens' bodies can eliminate, corruption.

While Dipankar Gupta would argue that business ethics goes well beyond meeting the requirements of the law, the response of most countries, governments and industry associations to corporate misdemeanors has been to explicate norms for corporate governance. Samir Barua, a Professor at IIM Ahmedabad and an insightful commentator on the Indian corporate sector gives a historical perspective on the evolution of corporate governance. However, he concludes that finding a model to ensure ethical behaviour will be as elusive as the alchemists' quest for a

way of converting base metals into gold. More so, in India where the atmosphere is far from conducive to ethical behaviour by companies. Yet, there is some hope. Jayaprakash Narayan, National Coordinator of the Lok Satta Movement believes that heightened public opinion and assertion by citizens' bodies can reduce, if not eliminate, corruption. Of particular importance is comprehensive electoral reform, as he believes that the roots of corruption lie in the high and often illegal expenditure on elections. While the power of the bureaucracy has been reduced by the dismantling of the licence-permit-raj, the government will continue to play a critical role in a developing country such as ours. G V Ramakrishna, an outstanding civil servant who was also instrumental in setting up India's first independent regulatory agency, SEBI, identifies the challenges for civil

servants in a deregulated economy. He urges civil servants to display a high degree of ethical stamina as this will reduce the corruption experienced by citizens at large.

The issue of ethics in business is a complex one and this round table brings out a wide spectrum of perspectives on how teaching ethics to business students can be improved, how companies can create an environment in which ethical behaviours are facilitated and how legal reform, citizens action and bureaucratic orientation can have a positive influence on the larger social environment. In spite of the odds, none of the authors are cynical and this holds out the best hope for an overall improvement in the ethical climate of this country.





Round Table

Business and Ethics

Narender Dhand



Narender Dhand is Chairman & Managing Director of Micromatic Grinding Technologies, Ghaziabad. nkdhnd@satyam.net.in

The purpose of business has always been to generate wealth for the promoters, employees and share holders – and a passionate pursuit of growth is the only way to ensure that the business objectives are met. The preoccupation with growth tends to push other elements into the background and as long as the ends are good, the means appear justified. It is our firm belief that wealth earned by unethical means invariably entails the utmost exertion, fear, anxiety, delusion and grief.

Beginning as a modest tool room for the engineering industry in Ghaziabad, today we have achieved a dominant position in the Indian machine tool industry. Our entrepreneurial drive coupled with our vision set ambitious targets for growth and we pursued bold strategies, but at all times we were conscious of the fact that growth is the

end result of actions taken, of 'processes' and 'systems' based on principles or 'core values'. There were many occasions when the easy way out seemed rationally justified but as a business organisation we have chosen to be guided strictly by the core values and the principles of ethics in business, walking the talk when our very survival was dependent on conformance to convenient action.

Following are the guiding principles of Micromatic Grinding Technologies (MGT) with respect to ethics in business, which amount to a movement involving over 200 people within the organisation and 1000 persons in our associate companies.

About Ethics

Ethics includes ideas and moral beliefs that influence the behaviour, conviction, attitudes and philosophy of life, including the working life of an individual or group of people and therefore an organisation. Ethics refers to individual and collective moral awareness.

Four different factors account for ethical decision-making processes in an organisation – cultural environment, industry environment, organisational environment and individual factors (values and attitudes).

Generally we understand ethics with respect to something 'external', or how we deal with outside agencies such as the income tax/sales tax/customs departments. However, these 'external ethics' cannot be very sound unless we

have sound 'internal ethics' to start with i.e. how we deal with our own employees. If we do not have right ethical policies established within the organisation, ethical behaviour outside will not follow.

Ethics at MGT

At the foundation of the core values of MGT is the commitment to ethical business practices with a people focus. (Exhibit 1 shows the MGT business model with its core values.)

Typically in today's world there is a tendency to get caught up with the superstructures ignoring the foundations on which the superstructures are built. The basic ethical principles on which we have tried to build the culture of the organisation are honesty, integrity, trust, equity, fairness and justice.

Honesty in Operations

In the formative years we had to face many moral and ethical predicaments which haunt us even today—whether to give a few hundred rupees to get our application for power connection processed, or some money to the Inspector to get the goods cleared for dispatch. A

non-bailable warrant was issued against us on one occasion for a small mistake, such as not displaying the 'holiday list' or 'timings of shifts', probably at the behest of a factory inspector whom we had not 'obliged'. We persisted patiently till good sense prevailed. There was a delay of over 18 months in getting Rs 0.2 Million from the JCCIE (Joint Chief Controller of Imports & Exports) office for the CCS (Cash Compensatory Support) due to us for the Rs 10 million export we made to the UK and the US in 1990. We made numerous representations, many times personally, to let all officials concerned know of our principled stand. Many people told us that we were impractical and foolish to let such a large amount be delayed while paying 24% interest on the overdraft to the banks. But we persevered. However our strong belief in our values and practices has seen us through.

Honesty in the financial working of the company, our insistence on scrupulously maintaining only one set of accounts and our accountability in all financial matters has enabled us to win the trust of our employees as well as that of all the professional middle men like our auditors, income tax/sales tax consultants, import/export forwarding and clearing agents, and so on. Such an atmosphere of trust will help an organisation through financial difficulties without the concomitant production-related anxieties brought on by employee unrest.

Integrity in Communication

We have always maintained a policy of free communication from top-down with the employees. Our practice of conveying information informally when everyone was gathered on the shop floor, was institutionalised in 1990 in the form of a 'general meeting' on the first Monday of every month. All the department heads and the MD share the important news/developments, both inside and outside the company. Whether it is news about a prestigious order, or about the postponement of payment of bonus due to cash flow problems, it is important that communication is direct as this avoids much of the distortion which happens when information is passed down the line. It also provides the vital personal touch. Of course it puts a direct responsibility on the top management to 'tell it as it is'. Honesty in all our operations and integrity in communication has helped develop the mutual trust between the employees and the top management, which has

About Micromatic Grinding Technologies

In 1973, two engineer entrepreneurs, V S Goindi and the author N K Dhand, set up a partnership firm, Micromatic Machines, as a modest tool room/job-shop for the engineering industry at Ghaziabad. Their aim was to get into the manufacturing of precision machine tools and the first precision cylindrical grinding machine was produced in Nov 1977. At the International Machine Tool Exhibition, 1979, at Mumbai their cylindrical grinder won two first prizes, one for the best design (CMTI/PMT Trust Award) and the other for best product (FIE Foundation). In 1995, the company got the ISO9001 standards certification from TUV, Germany.

The company's product range expanded over the years to cover a range of high-tech cylindrical grinders, a steady growth was achieved through domestic market share, registering a turnover of Rs 24 million in 1990. In 1990, the company split vertically – into Parishudh Machine Pvt Ltd and what is now Micromatic Grinding Technologies Ltd, to allow each company to grow in its chosen line and manner. All the resources and assets of the company, including manpower, were equally divided, and both companies have grown since separation.

Although the basic business philosophy was well established over the 17-year period from 1973 to 1990, it had to withstand the acid test of division, besides the onslaught of liberalisation and new market forces since 1990. The greatest challenge then was how to successfully harmonise the induction of 85 new people in 1991 with the older 100 employees, without deviating from the established ethics and norms. This has been done fairly successfully, as evidenced by the eight times increase in turnover between 1990 and 1998.

There are totally five companies in the group now; Ace Designers, Ace Manufacturing System, and Pragati Engineering, Bangalore, besides MGT at Ghaziabad and the fifth, Micromatic Machine Tools, the joint marketing company.

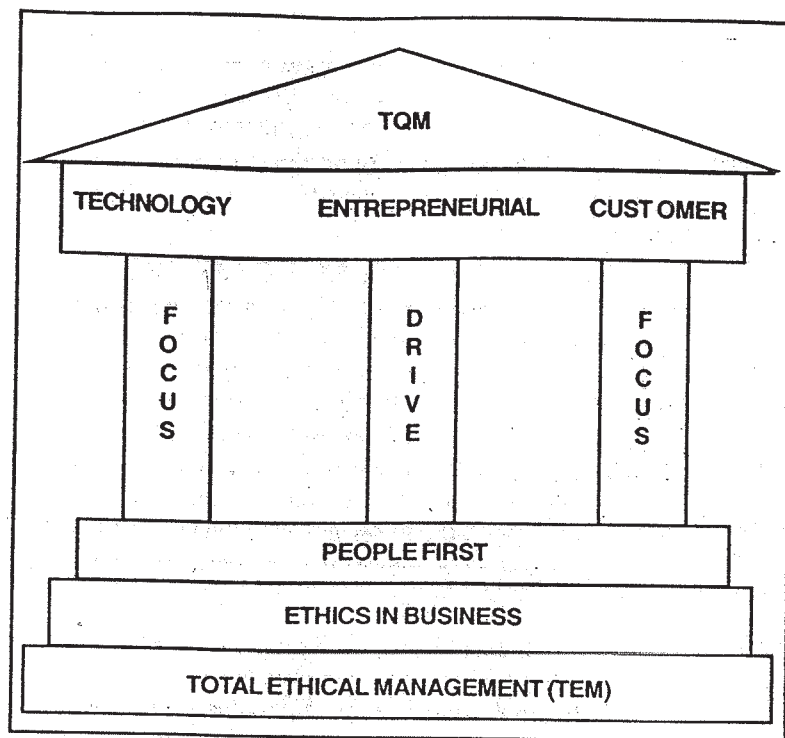


Exhibit 1

been the key to establishing basic internal ethics.

Equity

The most important factor in our working has been to treat every person in the company as an individual who must be respected, irrespective of the nature of work he does in the company. The 'respect' factor is not in direct proportion to the individual's position in the hierarchy. Also, everyone has the right to express himself, and it is the duty of all seniors to listen. The person at the lowest level, if not satisfied with his in-charge, can go to the highest level and enjoys the right to be heard. In doing so, a lot of problems get sorted out which otherwise would become serious grievances.

Fair Sharing of Success

Entrepreneurs often tend to forget the hard work put in by other colleagues and employees. Success must be shared fairly with one's employees. Our company has maintained an average level of 25% of net profits to be distributed among the employees as incentive and other benefits, besides the regular 20% bonus, in recognition of the fact that profits are generated through teamwork.

Clean and Balanced Working Environment

From the very beginning we have tried to maintain a balance between the working environment for factory workers and office staff, including top management, to try and avoid creating an unhealthy disparity within the organisation.

We do not believe there should be glaring differences between the different work areas in the office and have done away with the 'carpeted and upholstered' office even for the CMD. The now fashionable 'Japanese' style of open working office was adopted by us more than 20 years ago. The 'Micromatic way' of ensuring that the gap between the workers and the management does not widen includes steps such as air-conditioning the assembly plant along with the offices (soon after we were established in 1973, we installed air coolers inside the factory shed first, before we put the same in our offices), and having a common lunch room where all employees sit on similar benches.

Professionalism vs Family Hierarchy

A potential area of friction in family held companies, both small and large scale, is when the next generation takes over at the helm, wherein the professionals who have helped build and grow the enterprise might perceive

a glass ceiling. We have clearly announced that this will not be our policy (the present Technical Director, who joined the company in 1983, is the No 2 man in the organisation and the top candidate to succeed the MD), and this has helped keep high professional standards in the company. Merit, performance, integrity and honesty are the key recognition parameters for career advancement.

Social Justice

While it is considered the responsibility of the management to estimate and set future goals, and harness the necessary resources to achieve them, often in small-scale organisations little thought is given to estimate the social needs of the manpower engaged in achieving these targets.

The industrial workers in North India, who are mostly first generation rural migrants from a poor/lower class/caste background, find it difficult to cope with the problems of an urban environment, such as proper and timely medical aid, ration cards, school admissions and housing, which the staff and management are better equipped to cope with. The resulting frustrations add to the general unrest and the worker-management divide. While it is not possible for an organisation to solve all its workers' problems it can show genuine interest in these problems, guide them towards possible solutions and help them financially, whenever possible, by well thought-out schemes.

Some of the welfare schemes that we initiated (it must be

mentioned that they did not come as 'demands' by the employees) include a medicare scheme for all employees, even for those covered under the Employees State Insurance (ESI), since the ESI facilities are extremely poor in Ghaziabad; providing vehicle and marriage loans; low interest housing loans to all employees on a seniority basis; including workmen and technicians in the teams that visit the International Machine Tool Exhibitions; and opportunities for the upward mobility of all employees. We have always believed that higher levels of skills and achievement are possible, if employees within the organisation are given the chance. This not only gives job satisfaction to the individuals, but also helps the company grow. Thus a turner moves on to become a skilled grinding machine operator and possibly an inspector or a service engineer. Such mobility was also a necessity for us, as skilled manpower in machine-tool building is just not available in our region. The end result has been very satisfying, both for the workers and the company. The employees look forward to the different opportunities that come their way, and the enthusiasm and motivation thus generated has been a very important factor in the continuous growth achieved by the company.

Training is imperative for continual reinforcement of the messages of the organisation. As part of our induction programme all new employees are familiarised with the Total Ethical Management (TEM) process of the company. It is explained to all new recruits that business eth-

ics are pro-profit because the mutual confidence induced by it reduces costs. What constitutes ethics in business would be a five-way test. The questions that one has to answer are: Is it the truth? Is it fair to all concerned? Will it build goodwill and better friendship? Will it be beneficial to all concerned? Does it visualise a win-win situation for all?

To pay back to society what we felt we owed, the M G Lok Kalyan Trust was formed in 1990, and a certain percentage of the profits is allocated to the Trust each year. The Trust is dedicated to the educational, health and medicare needs of the less privileged. A permanent annual grant of Rs.0.1 million has been pledged to a well-known voluntary social work organisation in Ghaziabad, 'Gram Niyojan Kendra', which is working for women and children in the slums and villages in and around Ghaziabad. The company also participates in local sporting activities by providing facilities and stipends to local cricketers.

In the ultimate analysis, all that we have practised cannot be appreciated unless our enterprise is successful and profitable. On that yardstick we have consistently maintained better than average industry specific profitability and growth. With a personal investment of only Rs 25,000 in 1973, the company now has a share capital and reserve base of over Rs 60 million and a gross block (fixed assets) of Rs 120 million as per the 2002 balance sheet.

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