Ethical Business Practices and Corporate Financial Performance: An Empirical Analysis

THESIS

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<u>CERTIFICATE</u>

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Abstract

Business ethics for long has been considered an oxymoron. The view proposed by Milton Friedman that the sole purpose of business is profit maximization has been considered an appropriate view.

Good ethics has not usually been viewed as good for business and that deviations are common enough to lend credibility to the view that, at times they may be in conflict with business practices. Hence, rather than the view, that 'good ethics is good business', we can modify the thought to 'good business is ethical'.

There has been limited work done in the area of ethics in India. Dr. S. K. Chakraborty, Management Centre for Human Values, IIM Kolkata, has done outstanding work in India on the topic of ethics and values. However there is still a lot of ambiguity in the area of ethics.

To understand the variable Ethical Business Practices we need to understand what it is made up of. Most definitions of Business Ethics (BE), on the one hand, relate to ethical standards, rules and moral principles regarding what is right or wrong in specific situations. BE comprises the principles and standards that guide behaviour in the world of business [Ferrel, 2008]. On the other hand, Business Practice (BP) is a method, procedure, process or rule employed or followed by a company in the pursuit of its objectives. Business practice may also refer to these collectively

[www.businessdictionary.com]. Ethical Standards are principles that when followed promote values such as trust, good behaviour, fairness and or kindness. There is not one consistent set of standards that all companies follow, but each company has the right to develop the standards, that are meaningful for their organisation. Ethical standards are not always easily enforceable as they are usually vaguely defined and somewhat open to interpretation. e.g. ‘Men and women should be treated equally’. Others can be more specific as ‘Do not share the customer’s private information with anyone outside the company [www.businessdictornary.com]. Thus combining the above we can define Ethical Business Practices (EBP) as those Practices and Ethical standards that are put together by firms.

This study helps identify ethical practices which can be applied by companies to manage ethics and create an ethical culture in organisations. Business ethics is said to begin where the law ends. Thus the research may lead the way towards action once there is a consensus in the organisations that we need to establish the right ethical business practices.

The overall research design was aimed at identifying Ethical Business Practices (EBP). The methodology followed was survey based questionnaire and interviews. The sampling was multi-level where the first level, w.r.t. organisations chosen, was random. The next level was with regard to the managers across levels (junior, middle and senior levels of management).The final sample was 10 companies out of ET top 500 and a managerial sample of 121 Managers. Analytical techniques included various statistical tests viz. correlation, ANOVA, EFA and CFA and interview analysis which is presented through content analysis.

The various Ethical Business Practices (EBP) were identified from literature review. A pilot study was conducted across 4 organisations and 40 employees' to check for the relevance of listed Ethical Business Practices. The study also checked as to what an extent the EBP were practiced in the organisations. A few additional EBP were included on the basis of this pilot study and expert opinion.

The final questionnaire with 26 identified EBP was administered to 121 employees across all levels i.e. junior, middle and senior (mainly middle and senior) across 10 companies randomly selected from the ET Top 500 (2011) list. Interviews were conducted on 10% of the respondents.

The ET 500 list was used as it is a comprehensive list of financially high performing companies across a variety of financial parameters. There are innumerable financial parameters which can be considered. The final 7 financial parameters considered were Earning Per Share (EPS), Closing Price of Shares (CPS), Sales, Salaries and Wages, Staff Welfare, Profit after Tax (PAT) and Capital Reserves. These were chosen on the basis of literature review and expert opinion.

The aim was to find out if there was a correlation between the Ethical Business Practices (EBP) and the Corporate Financial Performance (CFP) of the organisations.

To explore, testing of hypothesis was done; statistical techniques such as reliability test, one way ANOVA and correlation were used. Cronbach alpha reliability test was done on the questionnaire. One way anova was used to check for significant difference in perception of Practice and Relevance to Business Ethics of the various attributes and also if significant difference existed across types of industries. Pearson

Correlation between the EBP score and the CFP (7 financial parameters) was calculated.

The findings were:

Cronbach Alpha reliability test gave a reliability score of .811 for the questionnaire.

Gap analysis was studied comparing the Relevance Mean Score and Practice Mean Score in corporates which reflected a clear gap between what was considered relevant to ethics and what was actually practiced in the organisation. There were a few practices found to be highly relevant but practiced to a limited extent. The extent to which they were practiced needs to be increased.

The Pearson correlation was done between EBP and the 7 financial parameters which exhibited a positive correlation across all the parameters. Between EBP and Profit after Tax there was a .71 correlation at 0.05 level. Among Salaries and Wages, Staff Welfare, Sales and Earnings per Share the correlation was .25. Only Capital reserves and closing price of shares showed a very low correlation. Thus Capital reserves correlation was not stated.

On the final questionnaire with 26 variables Exploratory Factor Analysis (EFA) and Confirmatory (CFA) was conducted using Principal Components Analysis (PCA) extraction, in order to confirm these extracted variables, Exploratory, Confirmatory Factor Analysis (E/CFA) approach was adopted, by using Maximum Likelihood (ML) estimation, which reduced the number of variables to 12 and factors to three. In order to confirm these, factor structure loadings relation CFA was done. CFA is used to verify the number of underlying dimensions of the instrument (factors) and the pattern of items and factor relationships (factor loadings). CFA is an indispensable tool for construct validation in the social and behavioural sciences [Brown, 2006]. In CFA, step 5 building block was followed rigorously to measure the construct called Ethical Business Practices in Corporate India. The three Factors derived were namely: Company Ethical Policy oriented (factor 1), Society oriented (factor 2) and Customer oriented (factor 3).

A total of 12 items were covered under the three factors, to understand the ethical practices followed by organisations instead of the 26 items as per the identified EBP.

The interviewed respondents indicated that 78% of them felt that it does not cost more to the organisation to be ethical; 70% felt that not adhering to EBP may improve bottom-line in the short run but may result in losses in the longer time frame.

During the interviews a variety of suggestions for the implementation of EBP in the organisations were also received. Some of the suggestions were that top management involvement was needed. It is important to have ethics training. It was also suggested that taking strong disciplinary action against unethical behaviour is an important way of instilling ethical behaviour in the organisations.

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List of Abbreviations

3BL	Triple Bottom Line
AMOS	Analysis of Moment Structures (is an add on module for SPSS)
BE	Business Ethics
CFP	Corporate Financial Performance
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CMIE	Centre for monitoring Indian Economy
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CP	Corporate Performance
CR	Corporate Responsibility
CR	Correlation
DF	Degrees of freedom
EBP	Ethical Business Practices
EFA	Exploratory Factor Analysis
EOA	Ethics Officer Association
EPA	Environmental Protection Agency
EPE	Ethical Performance Evaluation
EPS	Earning Per Share
ESG	Environmental, Social and Governance
ET 500	Economic Times 500 list
EVA	Economic Value Added
FSG	Federal Sentencing Guidelines
GLS	Generalised Least Square

GOF	Goodness of Fit
GRI	Global Reporting Initiative
HPO	High Performing Organisations
MBV	Management by Values
MI	Modification Indices
ML	Maximum Likelihood
MVA	Market Value Added
OECD	Organisation for Economic Cooperation and Development
PAT	Profit After Tax
PCA	Principal Component Analysis
PFA	Principal Factor Analysis
RMSEA	Root Mean Square Error of Approximation
RMR	Root Mean Residual
SEBI	Securities and Exchange Board of India
SEM	Structural Equation Model
SRI	Socially Responsible Investing
SRMR	Standardized Root Mean Residual
TLI	Tucker Lewis Index
ULS	Unweighted Least Square

Chapter I: Introduction - Need for the Study

1.1 BACKGROUND

Ethics has been studied from the time of Socrates. However, Business ethics (BE) has come in the forefront from the 1980's. By 1985 BE had become an academic field, albeit still in the process of definition [Schwartz, 2007]. To understand BE let us look at the definitions of ethics. De George defines ethics as 'a systematic attempt through the use of reason to make sense of our individual and social moral experience in such a way as to determine the rules which ought to govern human conduct and the values worth pursuing in life' [Amin, 2011].

Aristotle said, 'Moral excellence comes about as a result of habit. We become just, by doing just acts, temperate by doing temperate acts, brave by doing brave acts'. Mahatma Gandhi said, 'The roots of violence are wealth without work, pleasure without conscience, knowledge without character, commerce without morality, science without humanity, worship without sacrifice, and politics without principles' [Sinha, 2011]. As stated in the Brihandarayaha Upanishad 'As it does and as it acts, so it becomes. The doer of good becomes good and the doer of evil becomes evil' [Sinha, 2011]. Henry Ford said, 'A business that makes nothing but money is a poor kind of business' [Sinha, 2011]. Ethics is more than not giving or taking bribes [Lala, 2006].

Socrates, could be considered as the first ethicist. The bottom line in ethics is when it comes to principle one must have the willingness to die for it. Socrates was in jail having been condemned to death. The laws were just (not the judges). Crito, his friend had arranged for Socrates to escape. But Socrates refused because he thought escape was unethical. Socrates actions were guided by ethical considerations alone and not by such emotions as fear. The need was to be ethical for ethics sake and not for an ulterior purpose [Koestenbaum, 2002]. Today, there seems to be ethical degeneration which has led to the creation of ethical failures such as Enron, Computer Associates, Arthur Andersen WorldCom, etc., [Paine, 2003]. In the current scenario there has been a fundamental value shift that has altered how companies are thought of and how they are expected to behave [Paine, 2003]. Swami Vivekananda analyzed the reasons for adopting unethical means to achieve ones' selfish objectives. He said that people often enter into things they do not have the means to accomplish. Thus, they resort to cheating others to attain their own ends [Mishra, 2006]. The collapse of Enron and its scandal has led to companies being called BE (Before Enron) and PE (Post Enron) [Friedman, 2007].

Table 1.1: Prominent Organisations Accused of Immoral Behaviour

Enron, WorldCom, Xerox, Rite-Aid, Waste management, HealthSouth, AIG Insurance, Fannie Mae Mortgage Corporation, Quest, Parmalat (Italy), Ahold (the Netherlands):accounting fraud
Arthur Andersen: certifying fraudulent accounting statements, shredding documents wanted in a criminal investigation
Bridgestone-Firestone: delaying the recall of defective tires
Boeing: stealing secrets from a competitor; colluding with a federal procurement officer to secure contracts
Salomon Smith Barney, Merrill Lynch: lying to investors

Putnam Investments, Charles Schwab, Alliance Capital, Janus Capital, Strong Funds, Canary Capital Partners, Morgan Stanley, PBHG Fund: illegal trading practices, high management fees, steering clients to funds in return for commissions
Halliburton: overcharging for wartime products and services
Adelphia, Tyco: insider loans to corporate executives and families; corruption; theft of corporate funds
Major League Baseball: player steroid use; lag drug testing policies and punishments
The Nature Conservancy: making favourable real estate deals with board members
The United Nations: diversion of funds from the Iraqi Food for Oil program, widespread waste and corruption
The Catholic Church: clergy sexual abuse and subsequent cover up
The Air Force Academy: sexual assault, religious proselytizing by faculty
Army Intelligence, the National Guard: prisoner abuse in Iraq and Afghanistan
The City of Chicago: forcing companies to pay for city contracts through bribes, donating to campaigns of or doing free work for government officials
U.S Congress: accepting campaign donations, meals, and trips from lobbyists in return for political favours

Source: Ethics in the Workplace [Johnson, 2007]

The recent focus on business ethics no longer justifies considering Business Ethics as an oxymoron. The concern for ethical business practices has substantially increased since the demise of prominent business Organisations like Shell, Enron, and WorldCom etc. owing to strong social condemnation of some of their practices. With over 60, 000 transnational corporations, with over 800, 000 foreign affiliates and millennium of suppliers and distributors along their value chains, these have resulted in ethical minefields [Mahapatra, 2009]. Not a day goes by when there isn't a mention of ethics in the newspapers. Ethics issues are generating media pressure and debate across various forums. Changes are being seen in SEBI's regulations due to this. In India the collapse of Satyam brought Business ethics into the forefront. The 2G spectrum allocation, the commonwealth games, the IPL, the Adarsh housing, mining, land grabbing scams have brought ethics to the doorstep of every Indian. In addition the questioning about the lobbying process and massive ongoing agitation for the Lokpal bill aimed at ensuring a corruption free existence by emphasizing ethical business practices.

We need to be reminded that there are three spheres of human existence: economics, ecology and ethics and it is argued that the integration of these 'must be a part of any legitimate attempt to address the profound challenges of the 21st century [Barkemeyer, 2010].

1.2 Ethics in Various Businesses/Professions

Business Ethics can be defined as a critical, structured examination of how people and institutions should behave in the world of commerce. In particular these involve examining appropriate constraints on the pursuit of self-interest, or (for firms) profits, when the actions of individuals or firms affect others [www.businessethics.ca]. The application of a moral code of conduct to the strategic and operational management of a business [www.applied-corporate-governance.com]. DeGeorge cites 1985 as a point in history when business ethics ‘had become an academic discipline albeit in the process of definition. He argues that the ‘history of ethics in business is a long one’, going back to the beginning of business [Barkemeyer, 2010].

Business ethics is described as part of a veritable explosion of concepts that aims to explain what the proper role of business in society should be that includes terms such as corporate citizenship, corporate social responsibility, corporate accountability, stakeholder engagement, product stewardship, socially responsible investment and sustainable development. This expansion of terminology is a result of the widening ambit of business studies to include social and environmental dimensions alongside the traditional economic concerns [Barkemeyer, 2010].

The roots of the ethics movement in the corporate world can be traced to the United States where courts had been acting as a watchdog over the corporate dealings. The focus on ethics became sharper in the United States over the years because of the risk of being penalised by the courts for unethical behaviour [Summerfield, 2004]. Applying ethical rules to business situations happened mostly after scandals such as insiders trading in New York’s Wall Street [Bradburn, 2001]. Latest is the Walmart which has been in trouble in several countries for violating ethical practices including in India.

Considering that Indian ranking on Transparency international index on corruption is still very high as a nation, a lot of work needs to be done to make India a land of ethical practices in business and profession. Awareness for ethical behaviour in business is increasing. Around 240 individuals including 50-60 industry leaders have signed a pledge to create advertising with a conscience. Industry representatives under the banner of the Advertising standards Council of India (ASCI) took the pledge to sensitize younger advertising professionals about creating responsible campaigns. (Singh, 2011)

Over the years the corporate world has been subjected to courts scrutiny again and again leading to the growth of a code of ethics to be developed and followed in that country. The ramifications of this development have led to global awareness about ethics to be followed by the corporate world and it is now a legal requirement as most of the multinationals and transnational's are involved in the business across international borders. Thus unethical practices by transnational corporations may lead to far greater losses in the long run. No company is an island unto itself. Globalization has multiplied the ethical problems facing Organisations [Mahapatra, 2009].

We live in the midst of great technological advances, progress in many spheres of life and yet we seem to lose out on ethics. This may have implications for achievement and performance. Achieving and achieving through ethical means could be two different aspects altogether. Every walk of life needs ethics and business is no exception. Business ethics matter [Summerfield, 2004]. Society in order to prosper and be peaceful needs ethics and without the force of restraint which ethics wield, both business and society could be in trouble. The Institute for Global Ethics defines ethics as the obedience to the unenforceable [Summerfield, 2004]. Ethics are a set of values differentiating right from wrong. Ethics are thus internally imposed code developed by individuals to navigate in the day to day life. Ethics is the very practical activity of applying ones chosen values to the issues at hand [Harris, 2001]. Perhaps more than any other virtue the ability to be ethical, the perception that values have a claim on you, distinguish the human from the non-human, persons from animals [Koestenbaum, 2002].

1.3 ETHICAL BUSINESS PRACTICES (EBP)

This section is aimed at defining EBP. To understand the variable Ethical Business Practices we need to understand what it is made up of. Most definitions of Business Ethics (BE), on the one hand, relate to ethical standards, rules, standards and moral principles regarding what is right or wrong in specific situations. BE comprises the principles and standards that guide behaviour in the world of business [Ferrel, 2008]. On the other hand, Business Practice (BP) - A method, procedure, process or rule employed or followed by a company in the pursuit of its objectives. Business practice may also refer to these collectively [www.businessdictionary.com]. Ethical Standards are principles that when followed promote values such as trust, good behaviour, fairness and or kindness. There is not one consistent set of standards that all companies follow, but each company has the right to develop the standards, that are meaningful for their organisation. Ethical standards are not always easily enforceable as they are frequently vaguely defined and somewhat open to interpretation. e.g. 'Men and women should be treated equally'. Others can be more specific as 'Do not share the customer's private information with anyone outside the company [www.businessdictornary.com]. Thus combining the above we can define Ethical Business Practices (EBP) as (Business Practice) and specific (Ethical standards) put together.

Lord Moulton says, 'Law is adherence to the enforceable and ethics is adherence to the unenforceable'. Firms and corporations operate in the social and natural environment. Employees cannot make most business ethics decisions in a vacuum outside organisational codes, policies and culture [Ferrell, 2008]. As was mentioned in a talk at Radhakrishna Mission on 5th February 2012, one cannot take out an atom without disturbing the mass. Thus, business does not operate in a vacuum.

Irrespective of the demands and pressures upon it, business by virtue of its existence has to be ethical for two reasons: one, because whatever the business does effects its stakeholders and two, because every juncture of action has trajectories of ethical as well as unethical paths wherein the existence of the business is justified by ethical alternatives it responsibly chooses [Gupta, 2006]. Business ethics embraces a wide range of corporate responsibilities ranging from working conditions, dealing with corruption and fraud through to environmental and social responsibility. So businesses to become ethical need to indulge in ethical acts or ethical practices. Managers are not hostile to the idea of business ethics but they might consider it to be irrelevant. For example, financial performance might overweigh ethical standards to reflect high short-term performance measures. Corruption flourishes because it is a low risk and high profit activity [Vittal, 2003].

Thus it is understood that organisations need to be to be ethical and follow ethical business practices. This has been further elaborated in chapter 3.

1.4 THE WORLD'S MOST ETHICAL COMPANIES

Whetten's hypothesis and stewardship theory suggests that being content with ethically neutral behaviour sub optimizes benefits to stakeholders and fails to honor the leader's full obligation. There are organisations which are considered most ethical and a list is released every year by Ethisphere Institute – New York [www.ethisphere.com]. In the 4th annual list of the most ethical companies, Ethisphere evaluated the surveys and arranged the companies scores in 7 different categories including 'Innovation that contributes to the public well-being and executive leadership and tone from the top'. Ethisphere nixed any company that's had significant legal trouble over the past five years. Companies that focus on alcohol, tobacco or firearms also got the boot. The 100 companies that made the final cut include 1st time recipients Ford Motor companies, Adobe Systems and Campbell soup. Google, Starbucks, General Electric and 33 other companies have appeared on the list for all 4 years [www.ethisphere.com].

Societal expectations and pressures from legal and professional bodies have forced organisations to be more concerned towards their social responsibilities and ethical practices. For example in mid-1990's Shell faced one of its worst public relations nightmare due to its unethical business practices in Nigeria and anti-environmental acts in North Atlantic. In 1997 the Financial Times in its annual survey of Europe's most respected companies, identified Shell's ethical problems as the key reason for the company's dramatic drop in ranking. Shell turned upside down in the aftermath of these unfavorable experiences and thus started correcting itself for a sustainable growth [Donaldson, 1999]. Similar to Shell, many organisations whose business practices are perceived to be unethical and their products are considered to be harmful to the consumers (e.g. cigarette) face strong social condemnation or disapproval. Especially in recent corporate history, Enron and Arthur Anderson episode, insists on the importance of ethical practices in business.

We need to realize that globalisation has multiplied the ethical problems facing organisations. Attitude towards ethics are rooted in culture and business practices [Mahapatra, 2009].

The importance of EBP is reflected in companies where the sales and reputations have suffered, because they ignored ethical standards points to evidence that, U.S. companies where ethical standards prevail, have consistently outperformed the Wall Street norm [Harris, 2001]. In a study by Arthur Anderson and LBS, company secretaries and other senior executives of leading UK companies reported that business ethics activities had a positive influence on profit, winning new business, productivity and business growth. Insurance companies and pension funds are going to demand good corporate governance and their involvement is a much more effective solution than an Enron trial because they are interested in the survival, growth, prosperity of companies and in creating real value [Harris, 2001].Thus what we need is preventive action.

Given the list of positive financial effects of running ethical business, we expected companies with higher ethical competency to enjoy superior overall profitability. Research has shown that ethics do pay [Hosmer, 1994]. Also, since unethical practices cost industries billions of dollars a year [Jones, 1996] and damage the image of corporations, emphasis on ethical behaviour in organisations has increased over the recent years [Trevino, 1986].Though some researchers believe these ethical lapses spring from employees putting their own needs above honesty [Kelly, 2007]. The important question is not so much about how leaders should act but rather one about why they act as they do? Why do leaders fail ethically when it is obvious as to how they should act? All of this reconfirms the importance of EBP for the success of organisations.

Table 1.2: Characteristics of Ethically Decoupled and Ethically Transformed Organisations

ETHICALLY DECOUPLED ORGANISATIONS	ETHICALLY TRANSFORMED ORGANISATIONS
See ethics as a means to an end (profit, better public image)	See ethics as an end in and of itself

ETHICALLY DECOUPLED ORGANISATIONS	**ETHICALLY TRANSFORMED ORGANISATIONS**
Comply with legal requirements	Exceed legal requirements
Exhibit organisational behaviour inconsistent with stated values	Take actions that reflect collective values; the transformed organisation "WALKS ITS TALKS"
Are insensitive to potential moral issues	Are highly sensitive to moral dilemmas
Control behaviour through rules and penalties	Control behaviour through adherence to shared values
Have a low awareness of ethical duties	Have a high awareness of individual and collective ethical responsibilities
Rarely discuss ethics; rarely use moral vocabulary	Routinely discuss ethics using moral vocabulary
Omit ethics from daily decisions and operations	Make ethics part of every decision and operation
Are driven by practical or pragmatic considerations (the bottom line)	Are driven missions and values
React to destructive behaviours	Prevent destructive behaviours
Have ethically inconsistent reward structures	Have reward systems that promote moral behaviour
Show a high concern level for self	Show a high concern level for others
Sacrifice individual rights for organisational good	Honour and protect individual rights
Engage in self-centered communication (monologue)	Engage in other-centered communication (dialogue)

ETHICALLY DECOUPLED ORGANISATIONS	**ETHICALLY TRANSFORMED ORGANISATIONS**
Have low to moderate trust and commitment levels	Have high trust and commitment levels
Have teams that routinely fall victim to unethical group processes	Have teams that are rarely victimized by unethical group processes
Show high concern for the organisation	Show high concern for stakeholders, society, and the global environment
Hold and build power bases	Give power away
Exhibit low-level moral reasoning	Base reasoning on universal ethical principles
Prevent members from making moral choices	Equip members to make moral choices
Respond to changes in the ethical environment	Anticipate changes in the ethical environment
Invest little in building a positive ethical climate	Invest significantly in creating and maintaining an ethical workplace (i.e. training, socialization, leader involvement)
Are at significant risk of ethical misbehaviour and scandal	Are at a low risk of ethical misbehaviour and scandal

Source: Ethics in the Workplace [Johnson, 2007]

At the very least, transformed organisations as mentioned in the table above reduce the risk that they will be damaged, sometimes fatally, by scandal. Yet reducing exposure to risk is only part of the story. Many of the transformational characteristics

- shared purpose and mission, a trusting atmosphere, core values, empowerment, and concern for others- create a high performance climate. In such environments members are more committed, work harder, share information, and act responsibly; maintain positive relationships with customers and suppliers; take more initiative and generate more creative ideas; and persist in the face of obstacles [Johnson, 2007]. This is likely to lead to better performing organisations.

1.5 Challenges in the Measurement of Ethics

We now address the importance, relevance and challenges of measuring ethics: Individuals have trouble distinguishing right from wrong. But more often it is the grey areas which cause difficulty in ethical decision making. Many question whether standards for right behaviour even exist. Many businesses need a constant presence of an ethics officer or ethics monitoring that reminds everyone to do the right thing. The recent years have seen an increased emphasis on ethical behaviour by organisations as well as by individuals [Chockalingam, 1998]. The early thinkers believed that the important things were the character traits of a good person. If you were a good person you would do the right thing anyway [Bradburn, 2001].

It has been assumed that bad deeds are the work of bad people and that decent, well intentioned people will automatically do what is best, independently of the context in which they find themselves. Research however has consistently discredited this view. The well-known Milgram experiment, carried out in the early 1960s by Yale university social psychologist Stanley Milgram, demonstrated how readily people follow orders given by an authority figure even when it means doing harm to others [Trevino, 2004]. Also the bystander behaviour findings show the extent which people take their behaviour cues from others and cast doubt on any simple correlation between good deeds and good people or bad deeds and bad people [Paine, 2003].Thus making ethical decisions is easy when the facts are clear and the choices black and white. But it is a different story when the situation is clouded by ambiguity, incomplete information, multiple points of view and conflicting responsibilities [Andrews, 2003]

Now organisations have to manage ethics. The name of that ethical conscience is the ethics office. Despite this, protagonists of the legal compliance approach to ethics may be implicitly endorsing a code of moral mediocrity for their organisation [Paine, 2003].

A compliance approach overemphasizes rules, the threat of detection and punishment, which may not serve as a healthy organisation culture for ensuring corporate performance [Paine, 2003]. Some companies have moved beyond compliance to an integrity based approach to ethics management, building a culture that embraces core values and an uncompromising implementation of legal and ethical principles [Paine, 2003].

What has to be understood is that ethics is not a ‘soft’ topic, unrelated to the ‘hard’ world of business [Harris, 2001]. Since Aristotle, people have recognized that the careful study and reflection of those whom we see as good is an important and effective means of individual moral development [Harris, 2001]. It was found that the existence of a code was not associated with the frequency of violations; its use was associated with reduced ambiguity of standards [Farrel, 2002]. Ethics can also serve as competitive advantage [Summerfield, 2004]. In a more socially and environmentally aware world corporate responsibility in these spheres will itself be a source of competitive advantage [Summerfield, 2004]. In the late 1980s corruption in the financial world took centre stage. Insider trading, scandals on Wall Street, the federal government institutionalized ethics in a big way. In November 1991, Congress passed a law creating the U.S. sentencing commission and established the 'Federal Sentencing Guideline. All business executives, for the first time became responsible for the misdeeds of the companies and their subordinates [Rasberry, 2000].

The most commonly cited reasons for firms to measure, calculate and (possibly) report their additional (and in particular their social) bottom lines are: Convergence Claim- Measuring social performance helps improve social performance, and firms with better social performance tend to be more profitable in the long-run. Strong Social-obligation Claim- Firms have an obligation to maximise their social bottom line – their net positive social impact – and accurate measurement is necessary to judge how well they have fulfilled this obligation. Transparency Claim- The firms have obligations to stakeholders to disclose information about how well it performs with respect to all stakeholders [Norman, 2003]. Hence the need for the Triple Bottom-line- approach (3BL). Triple Bottom Line approach advocates believe that social and environmental performance can be measured in fairly objective ways, and that firms should use these results in order to improve their social and environmental performance. Moreover, these results should be reported as a matter of principle, and in using and reporting on these additional 'bottom-line' firms can be expected to do better in their financial bottom-line in the long run [Norman, 2003].

Measurement is what companies are increasingly looking for with regards to their ethics and compliance programs; partly to determine whether the programs are working but also to tweak and fine tune business systems and processes in the hope of recouping some return on the vast sums being spent on post Enron compliance.

Global Reporting Initiative (GRI), ensures minimum standards that companies should meet [Epstein, 1999]. Exploration of the elements of accountability and the role of both managers and accountants in making significant improvements leading to competitive advantage [Epstein, 1999]. The corporate accountability cycle includes 4 elements:

1. Governance
2. Measurement
3. Reporting
4. Management systems [Epstein, 1999].

Events such as the Satyam scam calls for close re-examination of the regulatory framework, all aspects from management systems, governance, measurement and reporting. What can be done by way of mandatory requirements to prevent and deter such occurrences? Amongst the issues thrown up by this episode are the roles of the auditors and the independent directors. Suggestions like a fixed two-three year term for auditors. Rotation / change of the partner handling the assignment, having two auditors and fees as a fixed percentage of turnover need to be examined and debated. Role of Independent directors merits urgent attention. Some have been accused of excessive interference and infringing on executive responsibilities while others are seen as more yes men of the promoters. There has been the question of remuneration, whether to pay them enough to make them take the function seriously versus paying them so generously that they are beholden to the promoter /CEO [Bhandari, 2009]. CEO’s themselves take remuneration which requires review. A study of the 1000 largest publically traded firms showed that firms that lost money actually had a higher overall CEO compensation level than firms that were profitable [Stanwick, 2003]. It is important to recognize that the key underlying factors which ultimately ensure good governance are values and ethics. Today corporate governance has increasingly become a vital element in establishing competitive advantage [Bhandari, 2009].

SUMMARY

Ethics has been around since the times of Socrates, Hammurabi etc. However the study of Business Ethics is a more recent phenomenon started in the 1980's. In India the debate on ethics and corruption is most vital and prevalent in all walks of life after the various scams. Until now it was ignored and pushed under the carpet and stayed there for a long time. Is it that organisations are getting more corrupt, or professionals getting greedier, or is it due to the greater media coverage that we become more aware of the wrong doing?

This study proposes to examine the ethical practices followed by organisations and identify the various practices which lead to enhanced corporate performance. Thus the two variables are ethical practices and corporate performance. The next chapter deals with one of the two variables which this study focused upon i.e. corporate performance.

Chapter 2: Corporate Performance –Identification of Relevant Dimensions

2.1 BACKGROUND

Corporate performance has often been considered as synonymous with financial results whether measured as profits, return on equity, and return on average capital employed or any number of other financial matrices. The ultimate performance standard has been a purely financial one, at least in the capitalist world [Paine, 2003].

In order to understand corporate performance it would be relevant to understand what exactly is a high performance organisation (HPO) ? What are the indicators of HPOs? HPOs have strong financial results, satisfied customers and employees, high level of individual initiative, productivity and innovation [Summerfield, 2004]. HPO's have a high brand image which gets reflected through their reputation, creditworthiness, increased investments into their organisation, share price, reduced employee turnover, market capitalization, and satisfied relationships with clients and vendors [Summerfield, 2004].

Conceptualizing Corporate Performance in this context, further, it is relevant to share similar findings which emerged from a widely reviewed 1985 study of 81 high-growth, mid-size US companies. Researchers found that leading companies had certain distinctive features. Most had articulated a guiding set of principles defining how value would be created for customers, the rights and responsibilities of employees, and what the organisation stood for. It was found that executives of these companies were motivated not only to make money but also to make a difference and that profit was generally viewed as a by-product of doing other things well. This is not to say these executives were unconcerned about financial performance; they had rigorous systems to monitor financial performance, operations and competitive position. But they also worked consistently to in still a strong sense of mission and shared values in their organisations [Paine, 2003].

Yet another study of US companies this one covering 18 pairs of companies all founded before 1950 – concluded that an enduring value system was a key driver of superior financial performance notably, however the authors concluded that the content of the values mattered less than their authenticity. In other word, according to these researchers, genuine belief in their values was more important than what the values actually were, although a compelling sense of purpose beyond making money was a shared feature of the leading companies' value systems. These three studies started with superior financial performance and then worked backward to try to identify its antecedents. Others have looked explicitly at some measure of ethical commitment and tried to determine its financial consequences. For instance a recent study of the 500 largest US companies appearing on the Business week 1000 list found that those with a defined commitment to ethical principles outperformed their peers. This study used a composite measure of financial performance for 1997 and the previous two years and determined commitment to ethics by reviewing statements in the companies' annual reports. But statements in an annual report are scarcely a convincing measure of corporate ethical competency, and a three year window on financial performance is too narrow to be of much significance, especially considering that the reported results are undoubtedly due in large measure to actions taken earlier in time [Paine, 2003]. Contrary to conventional wisdom that it costs more to be responsible than it is worth, the fact is the exact opposite is true. Responsible companies on an average outperform their less responsible peers up to 25% [www.Sbnow.org].

Perhaps the best perspective on the ethics-economic performance issue comes from the review of 99 academic studies of the relationship between corporate financial and social performance. The studies of mainly US companies used some 70 diverse measures of financial performance and examined 11 domains of social performance including human resource practices, environmental performance, product safety and community investment. Eighty of the 99 studies sought to determine whether ‘ethics pays’ whether better social performance was a predictor of better financial performance. Nineteen considered the reverse- whether stronger financial performance could predict higher social performance. Although there is much to question about these studies, it is worth noting that only 4 of the 99 studies found a negative relationship between social and financial performance. 55 studies found a positive correlation between better financial performance and better social relationships. Twenty two found no relationship between the two; and 18 found a mixed relationship [Paine, 2003].

At one end, businesses are trying to become more profitable and at the other end there has been greater requirement for businesses to be socially responsible, in other words ethical. There has been much debate in recent decades about the ‘social responsibilities’ of business. Nobel laureate Milton Friedman wrote that, in a free society, “there is one and only one social responsibility of a business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” Studies on ethics have frequently resorted to this definition. The notion of ethics has become increasingly debated in the business context because it has been believed that without proper pressure companies will not act in a socially responsible manner. Thus a profit-centric corporation will inevitably choose profits over other aspects of business [Paine, 2003].

That there is a need for compliance to ethical standards has been addressed through the national legislations. Is compliance to such laws the only way to address the issue of ethical practices? Work such as the sentencing commission encouraged the growth of formal ethics programmes [Weaver, 1999].

The recent years have seen increased emphasis on ethical behaviour by organisations as well as by individuals [Chockalingam, 1998]. Ethics programs have been referred to as a coherent set of actions directed primarily at the operational level in order to stimulate morally responsible behaviour of persons in a specific organisation [McDonald, 1999]. In modern capitalist societies, profit orientation of firms is not considered bad per se, as opposed to medieval times, when Catholic theologians in the west considered any form of profit making bad. Maximization of economic profits is a legitimate business goal today. It's only when businesses gain profit by unacceptable means of profiteering and do not contribute towards the social or public good, that they have been considered socially irresponsible and immoral [Vogel, 1991].

Although bottom line evidence of good citizenship's benefits is scarce. In his report published in 1999 for the non-profit conference board business group, validation was found in the form of enhanced corporate image, customer preference, strong employee relations and smoother regulatory approvals both in U.S. and U.K. [Summerfield, 2004]. Many ethical commitments enhanced the bottom-line rather than diluted it [Harris, 2001].

There has been significant evidence from extant literature that there has been a likely positive relationship between responsible corporate practices and financial performance [Waddock, 2002]. Though we may want to make the organisation an ethical place, the question often unanswered has been, how? What was conspicuously missing was the ‘how to’ of managing ethics at workplace [Wong, 1992], e.g. A glossy code of conduct, a high ranking ethics officer, a training program, an annual ethics audit - these trappings of an ethics program do not necessarily add up to a responsible, law-abiding organisation whose espoused values match its actions. Most organisations have a tick box approach to compliance. A formal ethics program could serve as a catalyst and a support system, but organisational integrity depends on the integration of the company’s values into its driving systems which then may or may not culminate into corporate performance [Paine, 2003].

Researchers have had little success in determining the specific actions that lead to superior corporate performance through ethical practices. Despite decades worth of experience and with the widespread use of corporate ethics codes a number of studies suggest that most are neglected by corporations and have had very little impact on their culture or operations [Murphy, 1995].

The companies where the sales and reputations had suffered ‘because they ignored ethical standards, points to evidence that, US companies where ethical standards prevailed have consistently outperformed the Wall Street norm [Harris, 2001]. In a study by Arthur Anderson, company secretaries and other senior executives of leading UK companies reported that business ethics activities had a positive influence on profit, winning new business, productivity and business growth [Harris, 2001]. The impact of values and beliefs on company performance was real [Harris, 2001].

However, firms with the highest ethical reputation did not have the best financial performance, but firms in the middle of the pack had a high ethical reputation [Stanwick, 2003].

Negative publicity generated by the wave of organisational scandals has spotlighted the importance of ethical behaviour. Workplaces that previously ignored or downplayed ethical considerations now recognize that their health is tied to moral performance. Fallen organisations pay a high price for their moral shortcomings in the form of damaged reputation; declining revenues, earnings, donations, and stock prices; downsizing and bankruptcy; increased regulation; and civil lawsuits and criminal charges. Managers and employees are looking for better, more effective ways to integrate ethical values into their work structures and processes. They realize that promoting ethical behaviour should be their top priority. Unfortunately, many don't know how to translate their good intentions into reality [Johnson, 2007].

Murugan finance in South India grew with ethics as its forte, while other organisations Like JVG Finance crashed due to unethical practices operating within the same business environment [Mishra, 2006]. Most organisations pass through five discernible stages in how to handle corporate responsibility. As the organisations' views of an issue grow and mature so do those of a society.

Companies need to stay abreast of the public's evolving ideas about corporate roles and responsibilities. Organisations usually go through the following five stages:1) Defensive stage – It's not our job to fix that. 2) Compliance stage -We'll do just as much as we have to 3) Managerial – It's the business, to achieve long term gains.4) Strategic - It gives us a competitive edge. 5) Civil - We need to make sure everybody does it. Maturity of societal issues and the public expectations around the issues reflected whether organisations were: Latent; Emerging; Consolidating; Institutionalized. Understanding where organisations were with regards to the organisation learning stages and societal stages of maturity would help us understand where they were with regards to adopting the ethical practices [Zadek, 2004]. What had earlier not been considered an ethical issue is now being considered an ethical issue. E.g. Nike was challenged to adjust its business model to embrace responsible practices effectively and build tomorrow's business success without compromising the bottom line. As with any business opportunity, the chances to make money by being good must be created, not found [Zadek, 2004].

2.2 DIMENSIONS TO MEASURE CORPORATE FINANCIAL PERFORMANCE

Most previous research has inconsistently used one or only a few measure to assess financial performance (for example, profitability measures such as net income [Friedman, 1970], earnings per share, return to investors [Abbott, 1979] and return on equity [Bowman, 1975] based apparently on the criteria of convenience to the researcher and in terms of the ease of getting data for analysis. Only financial measures rather than market derived measures to be used because market measures may be assessing more than just the financial outcome of the organisation [Griffin, 1997] Researchers have used 80 different measures of corporate financial performance. Of those 80 financial measures, 57 measures have been used by only one researcher at one time. This means that over 70% of financial performance measures were used only once. Without the repeated use of the same measures, it is difficult to develop validity or reliability checks for most of the financial measures [Griffin, 1997].

2.3 Corporate Social Responsibility (CSR), Corporate Social Performance (CSP) and Corporate Performance

Given the significance of CSR in corporate decision making, the relationship between a firm's social and ethical policies or actions and its financial performance is an important topic. The concept of social responsibility is fundamentally an ethical concept [Bhanu Murthy, 2007]. The acronyms CSR (corporate social responsibility), CSP (corporate social performance and CP (corporate performance) shall be used in this study for the purpose of brevity and convenience henceforth.

Corporate Governance refers to the moral framework, the ethical framework and the value framework, under which business decisions are taken and looks at the institutional and policy framework of corporations [Mishra, 2006]. Instead of viewing responsibility, responsiveness and issues as separate alternative corporate concerns, the CSP (Corporate Social Performance) model reflects an underlying interaction among the principles of social responsibility, the process of social responsiveness and the policies developed to address social issues [Wartick, 1985].

The CSP model integrates economic responsibility and public policy responsibility into its definition of social responsibility [Wartick, 1985].Using a greatly improved source of data on corporate social performance, and the results of a rigorous study of the empirical linkages between financial and social performance, it was found that CSP was positively associated with prior financial performance [Waddock, 1997]. CSP was also found to be positively associated with future financial performance, supporting the theory that good management and CSP were positively related [Waddock, 1997].

On the one hand companies were being even more strictly evaluated on economic as well as social and environmental performance, on the other the responsibility for ethical practices was still not being included in the measure of corporate performance. However, corporations have been evaluated more broadly and there has been a broader set of elements of organisational performance that have led to long term success and a broader set of measures of organisational success than has been previously used. The classic case of 'triple bottom line accounting' has been indicative of this [Epstein, 1999].

Another relevant measure was the social audits. Audits generally focused on discovering how a company's bottom line performance improved through more responsive social and ethical practice [Waddock, 2000]. We needed to find out if the values actually meant something and were they reflected in the company's ethical practices [Lencioni, 2002]. Thus ethics was not a soft topic, unrelated to the 'hard world of business. High ethics led firms to high profit [Harris, 2001]. Thus though there were various studies in related areas which took a look at various ethical practices and their impact on ethical behaviour, there is no conclusive study of the various ethical practices and their impact on corporate financial performance.

Some studies showed that there existed a link between ethics and corporate performance; for both financial and non-financial performance criteria [Curtis, 1999]. The mere presence of an ethics code or even a well-executed ethics program does not itself cause superior performance [Curtis, 1999]. Another related area as mentioned earlier in this domain was corporate social performance (CSP) which has been positively associated with financial performance [Waddock, 1997] supporting the need for the present study. Other related issues within this domain were that of managing responsibilities which go well beyond traditional ‘do good’ or discretionary activities associated with philanthropy and volunteerism, frequently termed as ‘corporate social responsibility’ (CSR). In its broadest sense, responsible managements took corporate citizenship seriously and as a core part of the way the company developed and implemented its business model. This indicated the importance of CSR for business [Waddock, 2007].

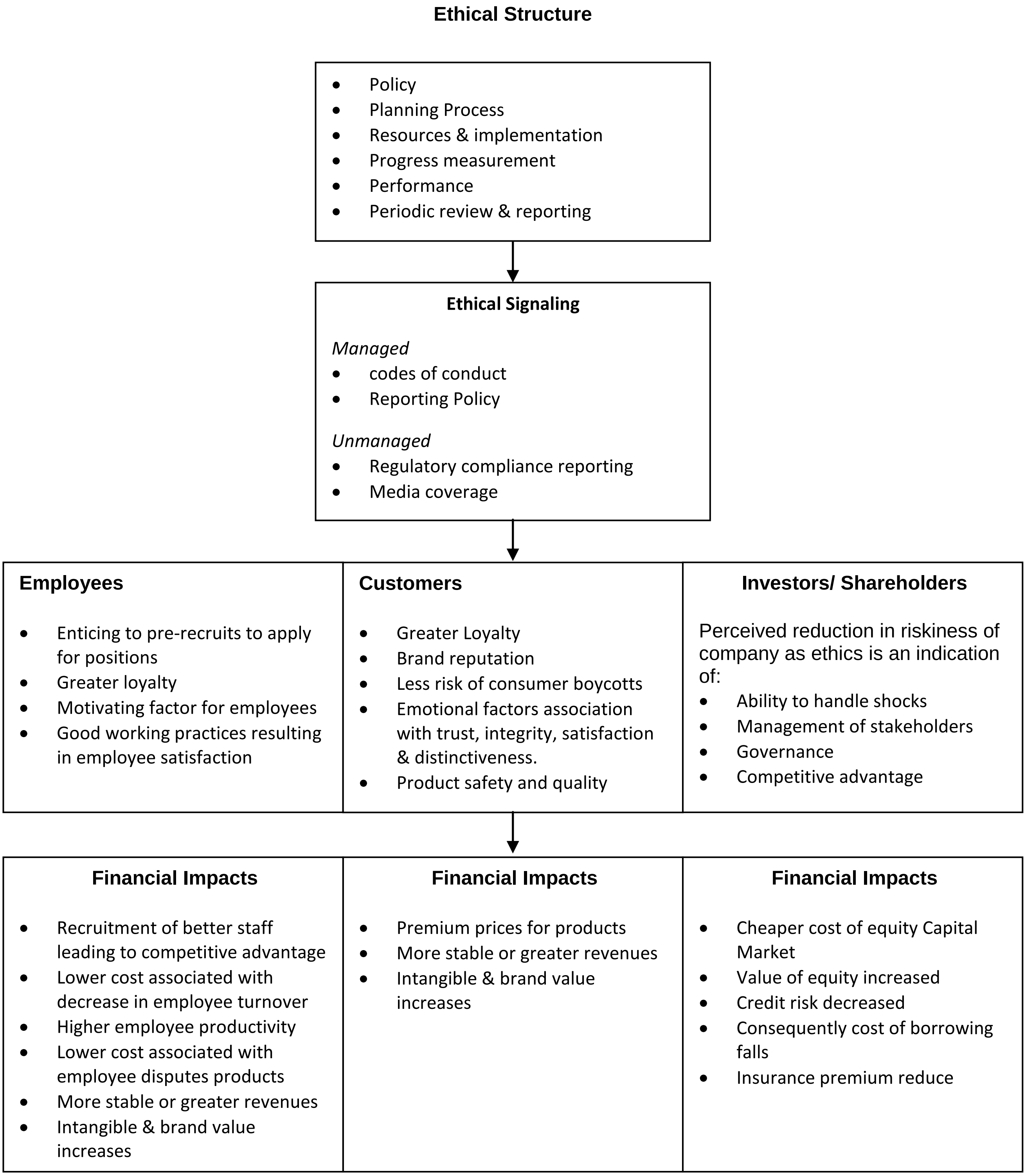
Over the years several global institutions and associations have been focusing on specific issues and concerns such as corporate governance, labour rights, corrupt practices and the environment. Others have offered comprehensive standards for corporate behaviour viz. United Nations Global Compact, Caux Round table Principles for Business (OECD), Global Reporting Initiative, World Business Council for Sustainable Development. There are studies to show that corporate performance is not just about financial performance e.g. the Millennium Poll found that world-wide respondents judged companies by a mix of financial and social factors. Asked to describe how they formed impressions of individual companies, half mentioned issues such as labour practices, Business Ethics, social responsibilities and environmental impacts. In 20 of the 23 countries surveyed, a majority said that companies should go beyond their historic role of making a profit, paying taxes creating jobs and obeying the laws [Paine, 2003].

2.4 STUDIES ON CORPORATE FINANCIAL PERFORMANCE (CFP)

A number of researchers have investigated whether any connection existed between the social or environmental factors on the one hand and the financial performance of a corporation on the other. These studies showed varied results largely because they chose different measures of environmental and corporate social performance (CSP). A new paradigm was suggested in the research which was awarded the 1997 Moskowitz Prize. In terms of non-financial performance, each year Fortune conducts an opinion survey of industry experts resulting in the "most admired" large companies. It covers eight key attributes of corporate reputation, of which five directly track concerns of stakeholders either directly or indirectly. These are: innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. The other three are entirely financial: value as a long-term investment, financial soundness, and use of corporate assets. On a 10-point scale, the average reputation score of companies that made a public commitment to an ethics code or code of conduct was 4.7 percent higher than those that did not. For those companies making an extensive or more explicit ethics commitment, average reputation scores were 6.7 percent higher [Verschoor, 1999].

The following Chart sets out a possible course of the relationship that a corporate ethics policy may take in effecting the financial performance of a company.

Figure 2.1: Summary Chart of the Relations of Ethics Policy on Financial Performance



Source: Does Business Ethics Pay? [Webley, 2004]

2.5 Outcome of Ethical Business Practices (EBP) and Impact on Financial Performance

Studies have found firms EBP to impact organisational outcome [Galbreath, 2010]. Reputation impacts Financial Performance. Reputation is impacted by six drivers one of it being social responsibility. Benjamin Franklin stated ‘it takes many good deeds to build a good reputation and only one bad one to lose it. ’Warren Buffet states ‘you can lose a reputation that took 37 years to build in 37 seconds. Harris Interactive Reputation quotient has helped identify a strong positive relationship between change in reputation and change in market capitalization [Krueger, 2010]. Firms with improved reputations enjoy lower volatility in their stock prices than firms with diminished reputation. In another study of the relationship between reputation and financial success, a company’s reputation for financial success can adversely affect its overall reputation. The author reports that firms perceived as making profits at the expense of customers can have their reputation adversely affected. The author calls this phenomenon ‘The Bottom Line Back Lash effect’. This effect could possibly explain why companies with poor reputations are sometimes more profitable than other companies with better reputations. The findings showed that firms with improved reputations tended to outperform firms with diminished reputations [Krueger, 2010].

The focus cannot be only on reputation or building reputation. There is always reason for suspicion when people and companies, tell you how good they are. Staying silent and letting deeds and reputation speak for them is preferable. Not paying suppliers on time – asking employees to lie are unethical behaviours. There has been optimism that regulation coupled with responsibility has been keeping the majority on the straight and narrow [Strategic Direction, 2007].

There has been a concern with this approach, ‘good ethics is good business as it warrants ethical behaviour because it produces good bottom line results. Hence it may suffer the very bottom-line myopia or fixation it attempts to overcome [Amin, 2011].

Companies where the sales and reputations of companies have suffered ‘because they ignored ethical standards and points to evidence that US companies where ethical standards prevail ‘have consistently outperformed the Wall Street norm’ [Harris, 2001].

In a study by Arthur Anderson and LBS (2000) company secretaries and other senior executives of leading UK companies reported that business ethics activities had a positive influence on profit, winning new business, productivity and business growth [Harris, 2001].

Lower transaction costs, the hard to copy nature of a company’s ethical culture and the assessment by business people themselves all supported the bottom line value of ethical behaviour [Harris, 2001].

Studies showed that companies that were most responsive to employee’s needs had lower turnover of staff. For e g. Fortune magazine publishes a list of 100 best companies to work for in the United States based on research conducted by Hewitt, a HR consultancy. Companies on this list attract twice as many applicants as their competitors, secure the most talented and have a staff turnover rate of around half that of competitors that are not on the list [Summerfield, 2004]. The empirical findings suggested that corporate ethics was vital for management, employees, shareholders, stakeholders and the community at large.

This study had emphasized the recurrent and paradoxical finding that firms which have been perceived as having met social responsibility criteria have generally been shown to have had a financial performance at least on par, if not better than other firms [Donker, 2008].

In this study two new models were introduced, identified a set of parameters (values) that represents a CV-index (corporate values) and generated a set of hypotheses to test the impact of the CV index on corporate performance. The purpose of the first model (CV-index) was to numerically quantify CV using 10 values that represented an integral set of corporate values and the second was a model that calculated the influence of corporate values on market to book values (MTB-value). Findings suggested a positive and statistically significant relationship between corporate values and firm performance [Donker, 2008].

CSR was one aspect of EBP in building a firm's reputation. Corporations needed to distinguish among ethical, altruistic and strategic forms of CSR. For example ethical CSR grounded in the concept of ethical duties and responsibilities of a company was mandatory and therefore might not increase corporate image attractiveness and identification significantly [Arendt, 2010]. According to the literature for 3 decades, scholars have studied the relationship between CSR and firm performance (FP). Although results were mixed, the trend seemed to suggest a moderately positive CSR-FP relationship. However purported benefits of CSR were numerous and included those beyond the 'pure' financial, from maintaining the license to operate, to risk reduction to efficiency gains and to tax advantages [Galbreath, 2010].

CSR arguably, conveyed to employees essential information on which they judge the fairness of a firm. The issue of honesty, fairness and integrity has been intrinsically tied to the ethical dimensions of firm's social responsibilities and as such, reflected CSR activity [Caroll, 1979]. This often led to reduced turnover. Employee turnover has been important because the loss of human capital in firms can have dramatic effects on competitive advantage [Barney, 1991]. Executives continue to suggest that employees have been their most valuable asset and that a firm's ability to retain employees was a hallmark and signal of organisational success [Galbreath, 2010]. The ability to retain employees not only demonstrates that a given firm was a valued place to work, which could elicit positive corporate association from the public but several scholars also found that retaining employees had positive consequences for firms financial performance and productivity and suggested that CSR may become the new background for competitive advantage [Porter, 2006]

While 94% of the companies believed that development of CSR strategies could deliver real business benefits only 11% made any significant progress in implementing strategy in the organisation. CSR programs influenced 70% of all customer purchasing decisions. Drivers of CSR have been philanthropy, image building, employee morale and ethics (in that order). Banks topped in the list of CSR activities while construction was at the bottom. Ethics needs to be looked at not as a virtue but as a long term business strategy. Merck, which cured river blindness in Africa and distributed penicillin free of cost in war time Japan, was able to sustain its business interests in these countries over a long period. It has been found that CSR contributes to a consumer's sense of wellbeing and that this benefit is rewarded by consumers in the market. Outcomes from CSR include positive company evaluations, higher purchase intentions, resilience to negative information about the organisation, positive word of mouth and a willingness to pay higher prices by some consumers [Green, 2011].The results of the study showed neither a positive nor a negative relationship between firm’s contribution to climate change, measured as carbon intensity and financial performance. A number of studies examined the relationship between the financial performance of firms and corporate sustainability [Ziegler, 2009].

When faced with an ethical problem, “the ideal resolution was not a trade-off between ethics and other considerations, but a decision that was ethically defensible while at the same time satisfied the legitimate demands of economic performance and a company’s legal obligation [Donker, 2008].There has been little usage of the terms corporate accountability and citizenship, suggesting that they remained largely academic terms that failed to penetrate societal consciousness [Holt, 2010]. Within the popular media at least business ethics has remained narrowly focused around financial mismanagement while the term CSR encompassed broader sustainability dimensions [Ziegler, 2009].

Summary

Corporate performance has generally been thought of as synonymous with financial results whether measured as profits, return on equity, return on average capital employed or any number of other financial matrices, the ultimate performance standard has been a purely financial one, at least in the capitalist world [Paine, 2003]. Often business ethics remains narrowly focused around financial mismanagement while the term CSR encompasses broader sustainability dimensions [Ziegler, 2009].

However, Corporate Performance ought to be reflected through various other factors such as reputation, Human Resource practices, Safety procedures, Community Development, Environmental Concern and financial factors. Thus, when we talk of corporate performance it is a broader term than just financial performance. However in this research the impact of EBP on Financial Performance is analysed as FP is an objective factor as compared to Corporate Performance which also includes some subjective factors. The next chapter covers the second variable i.e. ethical practices which is focused in this study.

Chapter 3: Review of Literature

3.1 HISTORICAL PERSPECTIVE: EMERGENCE OF ETHICS AND ETHICAL BUSINESS PRACTICES (EBP)

Ethics began with the teachings of Socrates – The ultimate object of human activity has been happiness and the necessary means to reach it, virtue. Since everybody necessarily seeks happiness, no one is deliberately corrupt. All evil arises from ignorance and virtue can be imparted by instruction. Plato, the disciple of Socrates did not consider virtue to consist in wisdom alone, but in justice, temperance and fortitude. Plato's illustrious disciple Aristotle must be considered the real founder of systematic ethics. And, a complete revolution in ethics was introduced by Immanuel Kant (1774-1804) [www.ethicalpractices.org].

Contemporary literature traces the history of ethics differently. De George argues that the 'history of ethics in business is a long one, going back to the beginning of business. 1985 is the point in history when Business Ethics (BE) became an academic discipline [Barkemeyer, 2010]. In describing BE, what must be understood is that profit may be first, but honour is first and foremost. It seems impossible to build businesses without mutual trust and respect to the partners. Responsible care for company reputation and image, legal business operations, ability to keep the word have been considered the fundamental concepts of ethical business practice [www.ethicalpractices.org].

Mother Teresa held that the true test of ethics is when it does not pay and we still follow it. The more comfortable view held by many current western writers on business ethics has been that ethics will pay, at least in the long run, unless it is fouled up by other failures in management [Jones, 1995]. Thiruvalluvar, who in the first century BC wrote for people having a strong ambience of trade and business, felt the same when he said, ‘If one has a reputation of speaking the truth, it will on its own give wealth.’ Many leading India business houses believe in this, the majority however do not [Sekhar, 2002]. A closer approximation to reality is provided in a capitalist society where ethics would ebb and flow and with it will change the relationship of profits with ethics [Sekhar, 2002]. In an ambience lacking ethics and trust, and trustworthiness, the ethical and trustworthy would be seen as ideal to transact with. Ethics will then pay. A large number would then begin to feel it is better to be ethical. Both trustworthiness and trust will grow. At this point the unethical and untrustworthy will exploit the situation and make profits on unethicality. Slowly a larger number would turn unethical till the ethical would again find it worthwhile to be so. And so the cycle will go on. What is important is that there could be long periods when people may be quite trustworthy, yet there would be a lack of trust in society due to various reasons. This is probably the present Indian situation. Even if we were to be ethical only because it would benefit us, these efforts, should not be disqualified as evidences of selfishness, and consequently unethicality [Sekhar, 2002]. Often the pressures intensify in periods of growth and high profits. When the economy is strong, the focus is on profits and growth and the risks assumed to get there are more tolerated. When growth and profit are down, the company shifts its priorities to avoiding problems such as regulatory investigations and fines and risks go down. Investigations cost money and time and may cause reputational damage to a company when the same effort could go into compliance, development and training [www.reuters, 2012]. During times of economic uncertainty research shows that ethical conduct among US employees tends to be at its best. In 2011, the percentage of employees who witnessed misconduct at work fell to a new low (45%), in 2007 57% of employees saw wrongdoing in the workplace. This year more employees reported bad behaviour they saw, reaching a record high of 65%. This is 10 points higher than the percentage of reports before the recession. Historical trends indicate that as the economy improves ethical behaviour in the workplace declines [www.ethics.org]

In India, unethical business became a recognised phenomenon during the Second World War. Academics, journalistic and legal concern with ethics has become visible only during the nineties. In fact until the year 1992, ethics in business was hardly a topic of concerted engagement at any level- except in 2 or 3 business schools in the country. It was only the 2 billion dollar stock exchange fiasco in 1992, the Harshad Mehta scam which threw up the ethics issue at the macro level. The older generation often recalls that ethics decline in society had surfaced prominently during the 2nd world war when black market was born. This cumulative ethical depression began to break lose as an ethical cyclone with economic liberalisation adopted by India in 1991 [Chakraborty, 2003]. Each year, some 1.4 million US college students take introductory economics course, where they learn the basic concepts and tools of economics analysis and imbibe the classic view of markets as amoral. The numbers who take introductory ethics courses is not tracked [Paine, 2003]

Business Ethics is in the forefront since India got its own Enron, the Satyam scandal. It made all earlier figures like the 67 crore Bofors scam look inconspicuous in comparison. The Maytas incident brought Satyam down. Satyam means ‘the truth’ and Maytas is Satyam spelled backward. We can take it to mean ‘the untruth’.

Current BE scenario in India draws from the fight against corruption, which is on through Team Anna and the people out there to support them, which can take BE to a completely new level of discussion. This partial victory has brought the issue of ethics and corruption to the forefront. The World Bank defines corruption as ‘the use of public office for private gain’ [www.worldbank.org]. Internationally researchers have documented among managers a phenomenon they have called ‘moral muteness’ or the inability to engage with or speak about moral questions in the workplace [Paine, 2003]. Till now there was an avoidance of acknowledging that we have an issue and speaking about it. Now, at least, there is an acceptance that there is corruption and action needs to be taken. Corruption is one aspect of unethical practice.

As one Shell executive mentioned ‘we have 300 years of experience with financial accounting, 30 years with environmental accounting and virtually none with social/ethical accounting [Paine, 2003]. Most definitions of BE, on the one hand, relate to ethical standards rules, standards and moral principles regarding what is right or wrong in specific situations. BE comprises the principles and standards that guide behaviour in the world of business [Ferrel, 2008]. Business Practice (BP) - A method, procedure, process or rule employed or followed by a company in the pursuit of its objectives. Business practice may also refer to these collectively [www.businessdictionary.com]. Ethical Standards are principles that when followed promote values such as trust, good behaviour, fairness and or kindness. There is not one consistent set of standards that all companies follow, but each company has the right to develop the standards, that are meaningful for their organisation. Ethical standards are not always easily enforceable as they are frequently vaguely defined and somewhat open to interpretation. e.g. ‘Men and women should be treated equally’. ‘Treat the customer with respect and kindness’. Others can be more specific as ‘Do not share the customer's private information with anyone outside the company [www.businessdictionary.com]. Thus, Ethical Business Practices (EBP) can be taken to mean (Business Practice) and specific (Ethical standards) put together.

It has not been found that ethical values are more important to some sectors such as pharmaceuticals, banking, health and charities. Ethical values are found to be critical to the success of both commercial and not for profit organisations. If any organisation would like to improve its performance then incorporating ethical values in its strategic leadership would pay excellent dividends [Holme, 2008]. The area of focus differs though. For e.g. Companies in the oil sector are more focused on environmental issues, while companies in the food sector are involved more in community, health and food related CSR activities [Bayoud, 2012]

3.2 Defining Ethical Business Practices

Corporate ethics has been altered with many economic and social events and regulatory changes. Most of the changes have been made with the aim of increasing ethical conduct and creating more transparency in order to prevent repetition of scandals and economic crisis [Sharbatoghlie, 2013].

EBP then is not just 'right action' but is also an on-going effort to develop and strengthen the habit of right action. To err is human, but to cover up is wrong. Errors are part of the human condition. In fact, as the great sociologist Talcott Parson argued, any theory that does not take into its ambit that human beings can err is woefully inadequate [Gupta, 2006].

For an ethical dilemma presented, 80% of the participants acting in a corporate capacity made a decision that 97% of those acting in a personal capacity judged to be morally unacceptable. This discrepancy suggests how powerfully and subtly corporate roles can influence behaviour [Paine, 2003]. More than a few seem to believe that ‘having values’ means having a list of values and that implementing values is a discrete staff activity unrelated to actual line management [Paine, 2003]. Innumerable companies have spawned mini bureaucracies to administer various special programmes for ethics, diversity, environment and compliance, as they have experienced pressures for improvement in these areas [Paine, 2003].

Our second mistake often has been to cover up the first mistake. This is what makes us susceptible to unethical pressures from a variety of quarters. It is not as if all those who are now involved in some kind of unethical practice began their corporate lives with a strong desire to milk the system and profit at the organisations expense. What needs to be cultivated, deliberately repeatedly and incessantly, is to quickly admit ones mistake before it gets too complicated. Is this what is being practiced in the organisation, to own up to mistakes or pass the buck or cover up? To imagine a world without temptations for the short cut and quick buck is unreal. Yet there are many people out there who actually play by the rules. Without them civil life would have been impossible [Gupta, 2006].

The wrongdoings of many firms led to changes in legislations. The FSG -Federal Sentencing Guideline- that motivated almost all large companies to adopt a code of ethics. It suggested to make ethics a priority, set a good example of ethical conduct, keep commitments, provide information about culture and compliance, consider ethics in decision making and talk about ethics in the work place, what are the policies, compliance programmes and practices. With regards to environment it looked at positive programmes in place such as pollution reduction, recycling and energy saving measures as well as negative measures such as level of pollutants, Environmental Protection Agency (EPA) citation fines law suits and other measures [Hopkins, 2003].Corporate ethics has been altered with many economic and social events and regulatory changes. Most of the changes had been made with the aim of increasing ethical conduct and creating more transparency in order to prevent repetition of scandals and economic crisis [Sharbatoghlie, 2013].

Not only Community relations, Employee relations, Diversity, Customer relations [Curtis, 1999]. Business practices, diversity- women representation in the workforces are also to be taken into account [Paine, 2003].Though women constitute 33.7% of the workforce in India and China, they have only 5% of board seats [Wellalage, 2013]. EBP now embraces a wide range of corporate responsibilities ranging from working conditions dealing with corruption and fraud, through to environmental and social responsibility [Holt, 2010]. This expansion of terminology is a result of the widening remit of business studies to include social and environmental dimensions alongside the traditional economic concerns [Holt, 2010].

Also, Business Ethics has been described as part of a ‘veritable explosion of concepts that aimed to explain what the proper role of business in society should be’, that included terms such as corporate citizenship, corporate social responsibility (CSR) and sustainable development. [Barkemeyer, 2010].Thus various terms like Corporate Social Responsibility, Corporate Governance, Morals, transparency, Corporate Citizenship, Sustainability, Accountability, Responsible business, Corporate Social Performance, Responsible Investing, Responsible Consumerism, Management by Values (MBV) are associated with Business Ethics.

The definitions given below among concepts related to ethics may help clarify the subject at hand:

Table 3.1: Ethics and Related Concepts

Sr. No	Concepts	Operationalization by the Author	Year
1.	Ethics	Is the very practical approach towards attaining goals in an environment that involves other people. Ethics insists that ‘other people’ are significant variables that need to be factored in when we devise strategies to pursue our goals. Ethics is defined as the process of distinguishing the right and good from the wrong and bad and they imply a moral duty to pursue the good and the right.	[Godiwalla, 2006]
2.	Values	Value denotes something's degree of importance, with the aim of determining what action or life is best to do or live (Deontology), or at least attempt to describe the value of different actions. Values are the embodiment of what an organisation stands for, and should be the basis for the behaviour of its members.	http://getinvolved.uky.edu http://www.au.af.mil
3.	Morals	Morals have a greater social element to values and tend to have a very broad acceptance. Morals are far more about	http://changingminds.org

Sr. No	Concepts	Operationalization by the Author	Year
		good and bad than other values. We thus judge others more strongly on morals than values. A person can be described as immoral, yet there is no word for them not following values. Morals are the creation of ethics externally applied (logical-good or illogical bad behaviour).	
4.	CSR- Corporate social responsibility	Is regarded as a means for improving the quality of life or well-being of society viz. the philanthropic & legal dimension of CSR. Is management of stakeholder concern for responsible and irresponsible acts related to environmental, ethical and social phenomenon in a way that creates corporate benefit CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local communities and society at large. CSR refers to a company's voluntary contribution to sustainable development which goes beyond legal requirements.	[Vaaland, 2008] [Bhanu Murthy, 2007] [Gamerschlag, 2010]
5.	ESG	A term commonly used in the	[http://www.pwc.se]

Sr. No	Concepts	Operationalization by the Author	Year
		investment industry referring to environmental, social and governance considerations to incorporate in investment decision – making processes: responsible investment.	
6.	Corporate accountability	The act of being accountable to the stakeholders of an organisation, which may include shareholders, employees, suppliers, customers, the local community, and even the particular country (s) that the firm operates in. In most jurisdictions, a body of corporate law has been developed in order to formalize these requirements.	[www.businessdictionary.com]
7.	Triple Bottom line Accounting [TBL]	A framework for measuring corporate performance against not only economic, but also social and environmental parameters. The TBL dimensions also commonly called the three Ps, People, Planet and Profits. (3Ps)	[www.ibrc.indiana.edu]
8.	MBV- Management by Values	Is defined as a combination of identifying strategically relevant values and norms and promoting agreements as opposed to chronic conflict among organisational members.	[Jaakson, 2010]
9.	Sustainable Development	Sustainable Development of a business is adoption of a business strategy that	[Paine, 2003]

Sr. No	Concepts	Operationalization by the Author	Year
		drives long term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model. For the business enterprises, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the future. CSR looks to the past actions of a company while sustainability looks forward by changing the nature of the company An organisation's practices that meet the needs of the present without compromising the environmental, social and human needs of our descendants.	[http://www.amec.com]
10.	Global Citizenship	Implies an organisations commitment to and awareness of good CSR practices across its operations at all levels, from local to global.	[http://www.amec.com]
11.	Stakeholder Engagement	Moving beyond overemphasis on short term benefits for shareholders to consideration of long term organisational implications for all stakeholders: shareholders, communities, customers, employees,	[http://www.amec.com]

Sr. No	Concepts	Operationalization by the Author	Year
		the environment, the supply chain etc.	
12.	Product Stewardship	Product stewardship is a policy that ensures that all those involved in the life cycle of a product share responsibilities for reducing the health and environmental impacts, with producers bearing primary financial responsibility.	[www.productstewardship.us]
13.	Socially responsible investment	An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in environmental sustainability and alternative energy/clean technology efforts.	[http://www.investopedia.com]
14.	Enlightened Self Interest	An organisations recognition that it is in its own long term business interest to engage in CSR strategies and sustainable business practices.	[http://www.amec.com]

The above definitions show how broad the area of ethics is.

Most companies have basic policies on employee integrity, confidentiality and sexual harassment; however, relatively few have established policies regarding bribery, exploitive child labour, human rights violations and other issues they may encounter in the global market place [Nader, 2002]. Global business ethics has now become a significant problem for many multinational companies [Nader, 2002]. Two of the most important issues in business today are globalisation and ethics. Globalisation has led to increased business, competition which is one of the factors in the increased concern over ethics in business. Among different aspects of ethics, there is a visible trend towards developing and publishing codes of ethics in the top corporates all over the world [Sharbatoghlie, 2013].

How do we deal with the multitude of ethical issues prevailing? Through both training and the selection process of new functionaries, the organisation can influence the degree to which the decision maker has the necessary skills to act in a responsible way. The potential effectiveness of firms' ethics training programmes was studied. The results suggested that such training could have a positive effect, but relatively few firms provided such programmes [McDonald, 1999].

Codes of ethics are one of the tangible ways to examine whether organisations have recognized the need for ethical behaviour and have established a commitment to that need. Another aspect of ethical codes which have been investigated by researchers is the level of disclosure. In other words, how much a code of ethics is readily available for different stakeholders of a corporation is an indicator of the company's attention to ethics and ethical issues. [Sharbatoghlie, 2013].

As such though organisations have created codes of ethics, they are country specific and do not cater to international policy. As business entities have become global, they need to be modified and a universal code needs to be established. [Nader, 2002] So a cut paste action of ethics code is not enough.

There is little point in lifting a business ethics manual from some organisation and tampering with it, paraphrasing it in parts and hoping it works [Gupta, 2006]. Ethical codes should be developed and structured aligned with the environment of the corporates [Sharbatoghlie, 2013].

The ethical codes are now more readily available on corporates website which shows higher level of disclosure of ethical codes in 2009 as compared to 2006 [Sharbatoghlie, 2013].

EBP goes well beyond recommending that we obey the law. It helps us to take a stand when we are faced with ethical dilemmas. Ethical dilemmas are shades of grey. Unlike legal issues which are in black and white, ethical dilemmas are not expressly against the law but need to be handled correctly and collectively. If left unattended they can create legal problems in the not too distant future. Many organisations attempt to influence norms and values by formulation and communication of ethical codes. In addition to the formal norms and values, informal norms should also be considered especially the support in the organisations for responsible behaviour through the informal 'reward system' [McDonald, 1999]. As former US Supreme Court Justice, Earl Warren wrote that 'Law floats on a sea of ethics'. It is the ethical foundation in terms of culture and socialization that cannot be codified that makes law effective [Gilman, 2005]. This together with professional training will not only improve the standards adopted generally by companies but also introduce the necessary level of support from the boardroom to ensure effective implementation in areas which to date had caused many companies some difficulty [Summerfield, 2004].

3.3 Understanding Moral Development and Values

To reach an understanding of BE we must attempt to first understand how morals and values are developed. Individual moral development in the corporate context has not been widely studied. However nearly half the respondents - 49% of the 1994 survey of 4000 US workers said that their BE had improved over the course of their careers. This belief was strongest among those who worked in companies with comprehensive corporate ethics programme and almost 20% of the respondents whose companies had such programmes said that their personal ethics had improved because of their ethics at work [Paine, 2003]. Like lawyers doctors and other professionals' business people have special responsibilities that can only be grasped after people have attained a certain level of intellectual and moral maturity. Although children do learn important values at their parent's knees and many of these do carry over into corporate life, the special responsibilities of executives or the challenges of dealing with the complex moral problems that often present themselves to managers are unlikely to be among those lessons. So far I have yet to meet even one manager who learned at 'mothers knee' about fiduciary duties, conflict of interests or product stewardship. We might speculate on why the sentimental view of moral development is so popular, but in the end it has little to do with the realities of human growth or corporate ethics [Paine, 2003].

Ethics and Morality: The basis of all systems, social or political, rests upon the goodness of men. No nation is great or good because Parliament enacts this or that but because its men are great and good [Vivekananda, 2001].

Understanding values: Holistic Competencies = Values and skills. What is important in developing Holistic Competencies? There has been an unreflective tendency to affix skills to almost every management process. Why is it lopsided, why not holistic – holistic communications, holistic leadership and holistic negotiation? Values plus skills makes the picture holistic. Skills pertain to ‘doing ‘while values pertain to becoming. It is important to understand that ‘doing ‘is a function of the quality of ‘becoming’. Skills minus values do not stand their ground. Top level professionally skilled individuals – yet wrongs were committed. This is called the value gap. High skill, level high education, high intellect – What it resulted in was scams and scandals. Perverted application of sharp skills: It does not mean that possession of skills is unnecessary but possession of skills is only one of the conditions for having competence. The perversion in the application of skills comes from the value gap [Chakraborty, 2003]. He stated that a choice had to be made between short term and long term gain as given in the table below. And we need to be concerned as to what will our future be if the value gap continues. It can only lead to more scams.

Table 3.2: Short Term Gain vs Long Term Gain

1.	Short term gain- likely to lead to	Long term pain
2.	Short term pain versus – likely to lead to	Long term gain

If a business seeks only to maximise profits to ensure shareholder value and does not attend to the health of the entire system, short term profits may indeed result. However, neglecting or abusing the other constituencies in the interdependent system will eventually create negative feedback loops that will end up harming the long term interests of the investors and shareholders, resulting in sub- optimization of the entire system [Mackey, 2013]. Also there is a growing consensus that organisational human resource policies can if properly configured provide a direct and economically significant contribution to firm performance [Huselid, 1995]. Some of the human resource policies are a reflection of ethical business practices as found by the current researcher.

3.4 IMPACT OF ETHICAL BUSINESS PRACTICES (EBP) ON CORPORATE FINANCIAL PERFORMANCE (CFP)

The two constructs of Business Ethics as well as Corporate Financial Performance are intertwined and thus it is relevant to examine the impact of one over the other.

The BEST practice framework is based on 7 pillars of an ethical programme - values, codes, feedback, responsibility, training, reward and external assessment [Summerfield, 2004]. The establishment of the Global Reporting Initiative (GRI) gives the minimum standards that companies should meet. [Holt, 2010] This helps companies know if they are on track. So it is important that the organisations first put in place the various ethical practices and ultimately measure it.

It is also important that ethics programmes have been predominantly internally motivated and have not been introduced in response to external pressure [McDonald, 1999]. External pressure being for example such factors as the revised provisions in the Sentencing Guidelines in the USA and the Cadbury Report and its recommendations in the UK (in India the Mangalam report) [McDonald, 1999]. This is because BE is not just compliance.

Various EBP and their impact on corporate performance have been studied. According to KPMG's International Survey of Corporate Sustainability Reporting (2002) 45% of the Fortune global top 250 companies have issued environmental, social or sustainability reports in addition to their financial reports [Norman, 2003]. The report of Environics 2001 CSR monitor reported that corporate reputation was now based more on social responsibility than brand image, particularly in wealthy countries. The majority of respondents ranked environmental impacts, labour practices, business ethics and social contributions as the most important factors for forming an impression of the company. Hence it reemphasised the fact that ethical practices are needed to be focussed on [Economist, 2001].

The empirical study of Fortune 1000 firms assessed the degree to which the firms have adopted various practices associated with corporate ethics programmes. The study examined the following aspects of formalized corporate ethics activity: ethics orientated policy statements; formalizations of management responsibilities for ethics; free standing ethics offices; ethics and compliance telephone reporting/advise systems; top management and departmental involvement in ethics activities; usage of ethics training and other ethics awareness activities; and evaluation of ethics programmes activities [Weaver, 1999]. Ethics training had a positive effect on behaviour, however very few firms provided such training [McDonald, 1999].

Too often organisations settle for superficial ethical measures that have little influence on day-to-day operations. Surveys of large North American companies drive home this point. Nearly all major firms have ethical strategies in place to ensure compliance with legal requirements, including formal codes and policies, ethics officers, and systems for registering and dealing with ethical concerns and complaints. However, most of these efforts are disconnected or “decoupled” from corporate decisions and policies. Many ethical officials only devote a small portion of their time to their ethical duties, and complaint hotlines are rarely used. CEOs typically discuss ethical topics with their ethics officers only once or twice in a year, attend no meetings focusing primarily on ethics, and rarely communicate to employees about ethics.

Followers generally don’t receive more than one ethical message annually, and one-fifth to one-third of the lower level workers receives no ethics training at all over a 12-month period. Employees quickly skim written ethics statements and file them away [Johnson, 2007].The mere existence of ethics codes in firms may correspond with only a limited impact on ethical practices [Eyun, 2012]

Many authors have suggested that corporates should provide the same external accessibility for the code of ethics as a corporation’s annual report. They suggest that burying code of ethics in the depths of their website leads one to question how transparent and important these codes are actually meant to be. They also suggest that codes should be readily available to all stakeholders [Sharbatoghlie, 2013].

Research reveals that among the issues of global concern in corporates are employee health and safety, fair treatment of employees, ending bribery and other forms of corruption, protecting the environment and eliminating child labour [Paine, 2003].

Diversity training and issues have also become an area of focus. It is estimated that organisations spend $8 billion annually on diversity training [Jayne, 2004]. Organisations devote resources to diversity initiatives because they believe diversity is a business imperative and good for bottom-line.

Evidence of the movement toward ‘inclusion’ as a diversity strategy is revealed in a human Resource Institute (2003) report of findings from a 2001 survey of fortune 1000 companies: 96% of respondents said they provide diversity training on race, 88% on gender, 85% on ethnicity, 65% on age, 64% on disability, 57% on sexual orientation and 54% on religion [Jayne, 2004].

The role of diversity in the decision making and hiring process is also critical to ensure consistent ethical behaviour of the firm. By having a well diverse workforce CEO's can rely on alternative viewpoints in the decision making process [Stanwick, 2003]. Recent research in the UK has found that the presence of at least one female board director reduces company bankruptcy cost. Also having women on board leads to improved firm financial performance because women tend to consider a wide range of issues and options that are more in touch with stakeholder need [Wellalage, 2013].

Further more diversity helps a firm to better address the diverse need of the customers. Business ethics magazine used in part the ranking of the level of social commitment developed by KLD Research and Analysis Inc as the basis for the rankings. KLD evaluates each company's commitment to seven different stakeholder groups by using information obtained from lawsuits, government regulations issues, awards and other publically available information pertaining to the company [Stanwick, 2003].

Inclusion as a diversity strategy attempts to embrace and leverage all employee differences to benefit the organisation. One cannot, on the basis of the current research in psychology, conclude with confidence that a diverse group is a better performing group. Despite mixed results regarding the impact of diversity on organisations, research and theory clearly indicate that the outcomes of a diversity initiative depend heavily on how the diversity initiative was managed. A survey of 785 human resource professionals concluded that the factor that was most strongly related to successful diversity was the perception that top management supported the diversity training [Jayne, 2004].

A large number of studies have been done on corporate social responsibility (CSR) and its link with corporate performance. CSR can be viewed as a continuum ranging from companies engaged in illegal activities to those striving for social change. The data suggest that companies behaving in an illegal or irresponsible manner are hurt financially by such actions. However, being socially responsible offers no fiscal advantage to companies that merely comply with the legal mandates, or that engage in fragmented social responsibility activities, or that use the firm as an agent for social change. In contrast, it does help boost financial performance for companies that strategically target employee development and satisfaction as well as customer service [Johnson, 2003]. The Bhagvad Gita says about CSR. He who earns wealth only for themselves and enjoys the gifts bestowed on them, without sharing or giving it in return is undoubtedly a thief and leads to frustration and failure. He who shares the wealth generated only after serving the people through work done as a sacrifice for them, is freed from all sins [Phadnis, 2012]. Over the past decade, a growing number of companies have recognised the business benefits of CSR policies and practices [Mittal, 2008].

An attempt was made to examine the impact of corporate social responsibility (CSR) on corporate financial performance (CFP) in terms of profitability and growth after controlling for the effect of other variables on financial performance. Secondary data on CSR based on 93 companies operating in India were analysed by applying content analysis of annual reports for the year 2005-06 and individual websites of the companies. For CFP and control variables, secondary data have been collected for seven-year period from 1999-2000 to 2005-06 from Prowess, electronic database developed by Centre for Monitoring Indian Economy (CMIE), Mumbai. Statistical tests like factor analysis and multiple regression analysis have been applied. The results indicate significant positive impact of CSR on corporate profitability and insignificant positive impact on corporate growth. The present study is helpful for managers in considering the positive impact of CSR on corporate profitability while taking decisions about investing in CSR areas [Kapoor, 2010].

EBP sets up norms of functioning that are transparent in every respect. It is this transparency that adds to the bottom line on a more enduring basis. Customers know exactly what they are getting, the employees are assured that nobody is playing favourites within the organisation and the shareholders are satisfied that the company is keeping them fully informed about its activities [Gupta, 2006].

What are the benefits of implementing EBP in the organisations? BE principles appropriately applied has helped many struggling companies to turn their fortunes around. But one need not wait for a crisis to adopt BE. In fact BE does even better in normal times [Gupta, 2006]. However, results showed a high degree of corporate adoption of ethics policies, but wide variability in the extent to which these policies were implemented by various supporting structures and managerial activities. In effect, the vast majority of firms had committed to the low cost, possibly symbolic side of ethics management (e.g. adoption of ethics codes and policies etc.). But firms differed substantially in their efforts to see that those policies or codes were actually put into practice [Weaver, 1999]. Therefore, it can be concluded that literature addresses espoused ethics but enacted ethical practices and their impact on ethical behaviour of members in the organisation still remains a mystery. Sometimes, even though the ethical standards of the organisation were high, but if it was a very aggressive company, i.e. an action at all costs mentality, sometimes people are pushed to do stuff they shouldn’t have done [Seiglin, 2000]. Making ethical decisions is easy when the facts are clear and the choices black and white. But it is a different story when the situation is clouded by ambiguity, incomplete information, multiple points of view and conflicting responsibilities. In such situations which manager's experience all the time- ethical decision depends on both, the decision making process itself and on the experience, intelligence and integrity of the decision maker [Andrews, 2003].

Business ethics is about succeeding by the rules. There is nothing unethical in striving to succeed. In fact without this drive ethics would be almost unrealizable. Imagine two teams playing to fail. No rule in the world would apply in such conditions. It is only when teams agree that one of them must succeed that ethics comes into its own. It is imperative that the rules of the game be thoroughly internalised. In business too the only solution to ethical dilemmas is to know by reflex what not to do at any cost [Gupta, 2006]. Some researchers believe ethical lapses spring from employees putting their own needs above honesty [Kelly, 2007]. As an ethical culture gets built through the establishing of Ethical Business Practices the employee is more likely to make the right choices.

EBP works best when one is happy comfortable and content to be in a fish bowl- transparently in full view of their stakeholders [Gupta, 2006]. While putting the code into practice, the code of conduct should list very clearly what will not be tolerated at any cost. If everyone in the company knows what will not be tolerated no matter who does it, it clears the air and makes working together less prone to confusion and acrimony. We may need to express what we ought to do and also what we ought not to do. Manuals cannot say everything but should provide guidelines for action based on a few firm principles [Gupta, 2006].

A set of principal parameters i.e. time, context, gap, outcome and consequence influences the ethical performance evaluation (EPE) of business practices in the marketplace and society. The EPE of business practices is not only dependent upon the ethical values and principles of today, but those principals of tomorrow may be equally or even more crucial. For e.g.-Time- What have been acceptable business practices yesterday and that still are acceptable today may be unacceptable tomorrow. An e.g. of change in context is that 'bribery' is not allowed by laws in many jurisdictions around the world as a way of obtaining business in many parts of the world, but over the years the concept of bribery has been sanitized into a new form called 'facilitation payments'. The managerial framework of EPE provides a generic foundation and structure to examine the acceptability versus unacceptability of business practices [Svensson, 2007].

Strong credibility which comes through the establishment of ethical practices can sometimes give companies greater voice in regulatory and policy matters that affect their business. HDFC for e.g. has long been considered a trustworthy spokesperson for India's housing finance sector and the Indian government has often adopted its policy recommendation for e.g. to extend tax benefits to borrowers for home financing. Even when it comes to legal fines and penalties, ethical commitment can translate into a cost advantage [Paine, 2003]. As the fines will be less for those organisations with a strong ethics programme [Paine, 1994].

There is no doubt that ethical behaviour can be costly. Unethical behaviour often does go unpunished and careful planning and execution must back lofty goals. However, there is evidence that ignoring ethics is more costly than pursuing ethics. Business ethicists report that, more often than not, it pays to be ethical. High moral standards and outstanding performance go hand in hand. For example, large firms rated as socially responsible corporate citizens typically outperform other companies that make up the S & P 500. Being perceived as ethically responsible is an asset rather than a liability in today's business environment [Johnson, 2007].

US business executives believe that positive ethical practices are rewarded in the short and long term while, Chinese business executives believe only in long term rewards. The Chinese business executives report a much stronger belief that positive ethical practices are rewarded with additional sales or revenues in comparison to the US business executives who were on average not nearly as certain [Baglione, 2007].

A study showed that there was a strong positive link between a corporation's performance using three unrelated published financial and non-financial measures and a public commitment by its management to follow a code of ethical corporate conduct [Verschoor, 1999].

In addition to creating social, cultural, intellectual, physical, ecological, emotional and spiritual value for all stakeholders, conscious businesses also excel at delivering exceptional financial performances over the long-term. For example, a representative sample of conscious firms outperformed the overall stock market by a ratio of 10.5:1 over a 15 year period delivering more than 1600 per cent total returns when the market was up just over 150 per cent for the same period. Some people may interpret the phrase 'Conscious Capitalism' to be soft. But it is not soft at all. It is tough: it is challenging. You've got to do both. You have to perform, and you perform for a purpose [Mackey, 2013]

Employees and customers especially product safety/quality issues) can have a significant impact on financial performance. More specifically, these 2 variables can be a source of differentiation for an individual firm and improve its financial performance. It is surprising that the other 3 variables community, diversity and the natural environment fail to exhibit statistically significant impact on firm’s financial performance [Berman, 1999].

The empirical evidence supporting a significant connection between ethics and profitability by examining the connection between published reports of unethical behaviour by publicly traded U.S. and multinational firms and the performance of their stock. Using reports of unethical behaviour published in the Wall Street Journal from 1989 to 1993, the analysis shows that the actual stock performance for those companies was lower than the expected market adjusted returns. Unethical conduct by firms which was discovered and publicized had an impact on the shareholders by lowering the value of their stock for an appreciable period of time. Whatever their views on whether ethical behaviour is profitable, managers should be able to see a definite connection between unethical behaviour and the worth of their firm's stock. Stockholders, the press and regulators should find this information important in pressing for greater corporate and managerial accountability [Rao, 1996]. Certain actions taken by organisations failed to produce the desired results. Stock compensation actually increases the likelihood of accounting irregularities [Bowie, 2011]. So a lot of thought must go into which practices are adopted by business.

The path to hell is paved with good intentions. This observation highlights how, if one is not watchful or vigilant, one may take decisions or adopt courses of conduct, which prima facie appear to be good but will ultimately lead to disaster. Corruption is defined by the World Bank as the use of public office for private profit [Vittal, 2004]. Corruption is lack of integrity. When we talk of combating corruption really it would mean that the act of corruption has already taken place and we are trying to fight it. This means we are undertaking an exercise of breakdown maintenance. Vigilance really can be connected with the engineering terms of preventive, punitive and predictive maintenance [Vittal, 2004]. Thus setting EBP is likely to have a positive impact. It can work as preventive maintenance.

3.5 GAP/RESEARCH PROBLEM

Table 3.3: Research Paper and Key Findings

Sr. No.	**Title and brief about the study and key findings**	**Author and year**
1	**CSR: the role of leadership in driving ethical outcomes:** The long term view not only considers the organisation as an entity whose purpose is far beyond the narrow for profit perspective but argues that the organisations responsibility should be past, present and future oriented. Taking this long term perspective, the ultimate goal of an organisation is sustainability. In the context of CSR, the theorizer must decide whether to relate to an organisation purely as an economic entity or as a more complex activity including psychological and social meaning as well.	Mostovicz (2009)
2	**Green management and financial performance: A literature review:** Those suggesting a negative relationship between environmental management and financial performance argue that firms trying to enhance environmental performance draw resources and	Azorin (2009)

Sr. No.	Title and brief about the study and key findings	Author and year
	management effort away from core areas of the business, resulting in lower profits. Results are mixed, but works where a significant positive relationships between environment and firm performance is obtained are predominant. In fact 21 studies have obtained a positive impact of environmental management and / or environmental performance on financial performance. However financial performance may also influence environmental management. Infact a firm with a good financial performance can allocate more resources to prevention oriented technologies, practices and initiatives. A better environmental performance can provide competitive advantages (low cost and differentiation), which will subsequently improve financial performance.	
3	**Business Ethics – Part one: Does it matter?** The Institute of Directors and Vodaphone in their research paper ‘Leading Lights’ published in May 2007 reported: ‘One striking finding from the research is that organisations that have not adopted strong equal opportunities policies for male and female employees and minority groups are 20 percent more likely than average to have recorded a loss for the previous year. A culture at work where diversity is appreciated arises from ethical values. The connection with financial performance suggests we should be interested for moral and for business reasons.	Holme (2008)
4	**An Anthology of codes of ethics:** The reason for adopting codes of ethics have been found to vary significantly, with some suggesting somewhat cynically that the	Mcdonald (2009)

Sr. No.	Title and brief about the study and key findings	Author and year
	main aim of codes was for the maintenance of profits, which suggests that the presence of codes builds reputation and trust with customers However, the existence of codes of conduct does not necessarily reflect active implementation of ethical practices. Employees make more effort to understand and follow top managements ethical values and guidelines if the organisation rewards people for following desired ethical practices while also punishing those who fail to behave ethically. An over reliance on rewards and punishments encourages employees to operate at lower levels of moral reasoning. Though the presence of corporate codes of ethics has been found to be associated with less perceived wrongdoing in organisation but intriguingly, not with an increased propensity to report observed unethical behaviour.	
5	**Corporate Ethical Identity as a determinant of Firm Performance: A test of the mediating role of Stakeholder satisfaction** This study assesses the impact of corporate ethical identity (CEI) on a firms financial performance. Drawing on formulation of normative and instrumental stakeholder theory, it argues that firms with a strong ethical identity achieve a greater degree of stakeholder satisfaction (SS), which in turn positively influences a firm’s financial performance. We analyse 2 dimensions of the CEI of firms: corporate revealed ethics and corporate applied ethics. The results indicate that revealed ethics has informational worth and enhances shareholder value, whereas applied ethics has a positive impact through the	Berrone (2007)

Sr. No.	Title and brief about the study and key findings	Author and year
	improvement of SS. However revealed ethics by itself (i.e. decoupled from ethical initiatives) is not sufficient to boost economic performance. SS required the firm to implement some tangible measures (e.g. defining a CAE policy) not merely to make ethical statements (CRE). Thus revealing ethical information does not improve financial performance per se. Applied ethical actions are needed in order to take full advantage of ethical disclosure.	
6	**Is the motivation for CSR profit or ethics?** CSR is based on voluntary participation with governmental involvement as an observer or passive part. This definition of CSR is flexible as a result of being guided by shareholder and that business can adopt the organisations wishes and needs. CSR makes it desirable for CSR to be an ethical concept. The notion responsibility makes this ethical. 'Response' and 'ability' means that we are able to respond by acting voluntarily in this sense ethics is business ethics. The other viewpoint is companies target is always economic profit. Companies will never survive if their owners don't get profitable return on their investment. Different ways to get profit depend on the company's focus and their stakeholders are important for a long term profit orientation.	Haugland (2006)
7	**Does Business Ethics Pay?** This study was undertaken to explore some indicative means of a commitment to ethics/ corporate responsibility and then to compare them against financial performance measures over a period of 4 years.	Webley (2004)

Sr. No.	Title and brief about the study and key findings	Author and year
	In this way, the research set out to investigate whether it can be shown that a commitment to business ethics does pay. For this research 7 indicators were chosen 4 of corporate financial performance (MVA), EVA, Price earnings ratio (P/E) and ROCE return on capital employed and 3 of Corporate Responsibility (having a code of ethics ratings for managing socio / ethical risks and being cited consistently in the annual list of Britains most admired companies. A review of similar research shows that the relationship between good financial performance and other indicators of corporate responsibility (environmental management, CSR, sustainability etc.) is positive but not definitive. It was found that those companies in the sample with a code of ethics had over the period 1997-2001, outperformed a similar sized group who said they did not have a code. The general conclusion from this study is that there is a strong evidence to indicate that larger UK companies with code of ethics e.g. Those who are explicit about Business ethics, outperform in financial and other indicators, those companies who say they do not have a code. Having a code of ethics might therefore be said to be one hall mark of a well-managed company.	
8	**Corporate Reputation and Sustained superior Financial Performance:** Good corporate reputations are critical because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult. Existing empirical research confirms that there is a	Roberts (2002)

Sr. No.	Title and brief about the study and key findings	Author and year
	positive relationship between reputation and financial performance. This paper complements these findings by showing that firms with relatively good reputations are better able to sustain superior profit outcomes over time. In particular we undertake an analysis of the relationship between corporate reputation and the dynamics of financial performance. Also this paper decomposes overall reputation into a component that is predicted by previous financial performance and that which is 'left over' and finds that each element supports the persistence of above average profits over time.	
9	**The corporate social performance and corporate financial performance debate: 25 years of incomparable research:** Earlier research has inconsistently used one or only a few measures to assess financial performance (for example, profitability measures such as net income or earnings per share or return to investors or return on equity) based apparently on the criteria of convenience to the researcher and in terms of the ease of getting data for analysis. This study will focus on only financial measures rather than market derived measures, because market measures may be assessing more than just the financial outcome of the organisations. Over 70% of financial performance measures were used only once. Without repeated use of the same measures it is difficult to develop validity or reliability checks for most of the financial measures. The most widely used financial measures are size (total assets), return on assets, return on equity, asset age and 5 yrs. return on sales.	Griffin (1997)

Sr. No.	Title and brief about the study and key findings	Author and year
10	**Corporate Performance is closely linked to a strong ethical commitment:** Findings: Verschoor anyalysed a section of the annual reports of 500 of the largest US public companies. He looked for evidence of a public declaration of a commitment to a code of ethical conduct. He compared the performance of companies that made an ethical commitment with those that did not using the Stem Steward Performance 10000 report of Market Value Added (MVA) as published in Fortune Magazine. The study concluded that companies publicly committing to follow an ethics code as an internal control strategy achieved significantly higher performance measured in both financial and non-financial terms. He then studied Ethics Officer Association membership (as a measure of companies which have more effective ethics programs) and found that this did not appear to be a determinant of superior corporate performance. He concluded that the most plausible cause of superior performance is that an ethical tone has been set at the top of certain organisations that permeates at all levels and the nature of the values that management and directors have infused into an organisation over time.	Verschoor (1999)
11	**Impact of environmental management on firm performance:** A study by Klassen and Mclaunghlin in 1996 found that the marketplace rewarded companies that developed strong environmental management programs. In contrast they found that environment disasters such as oil spills reduced company share prices in excess of the direct clean-	Klassen (1996)

Sr. No.	Title and brief about the study and key findings	Author and year
	up costs. It is not likely that ethical criteria will always lead to outperformance, nor will it always lead to underperformance. Else why would a marketplace focused on profit maximization overlook a potentially successful strategy for so long?	
12	**An Empirical examination of the relationship between CSR and Profitability:** Moskowitz made no explicit claim that such firms were good investment risks. He clearly implied it and in addition recommended 14 firms as potential investments because of their social performance. The 14 socially responsible firms identified by Moskowitz had registered a stock price increase of 7.28% over the previous 6 mths, in contrast to a 4.4%rise for the Dow Jones, a 5.1 percent increase for the New York stock exchange and a 6.4% gain for S&P during that period. This finding was used to support the notion that socially responsible firms were good investment risks. This was challenged by Vance – Although he performed no statistical tests to determine whether differences were significant, he did correlate CSR and financial performance and finding a negative relationship concluded that the socially responsible firms were not good investments.	Aupperle (1985)

Is there a gap in the Ethical Practices of organisations and that of civic life? Why is it that a host of apparently good people who lead exemplary private lives end up concealing information about dangerous products or systematically falsifying costs? Why would organisations choose unethical business practices over EBP? The media attention generated by such ethics related failures is huge; however does that mean the businesses are usually unethical? In India, the Tata group has always put values and ethics before business; what does this entail and imply?

In the developing countries, the concept of BE arises ever more frequently, but it has not by any means succeeded in transforming the business culture to the same extent that it has in developed countries [Amin and Amin, 2011].

What are the costs involved for organisations to be ethical? Does it mean, to succeed organisations have to be unethical? Not only the costs involved, we may find whether it pays to be ethical. Is there a link between ethics and corporate performance? Does the setting up of ethics codes, hiring an ethics officer and conducting ethics training indicate an ethical organisation [McDonald, 1999]? What are the various EBP, what are their outcomes and how do these relate to CFP? These and many other questions abound within this research domain.

Do business ethics pay? Is a question some would say is a wrong one? Behaving ethically, they argue, is what you do because it is the right thing to do [Webley 2004].

It has been reported that there is little evidence that companies with a code of ethics would generate significantly more economic value added (EVA) and market value added (MVA) than those without codes [Verschoor, 1999].

While in another study the conclusion is that there is a strong evidence to indicate that larger UK companies with code of ethics e.g. Those who are explicit about Business ethics, outperform in financial and other indicators, those companies who say they do not have a code. Having a code of ethics might therefore be said to be one hall mark of a well-managed company [Webley, 2004].

A study of 18 visionary companies whose primary focus was not just profits, showed that compared to non-visionary profit seeking companies they were sustainable and were ‘made to last’. The extended study came to the conclusion that these companies had additionally ‘end values’ and achieved excellent profitability apart from sustainability. These studies do not necessarily prove that ethics directly results in profits but companies that plan seriously to be ‘value oriented’ are able to muster their organisational strengths better and achieve better growth. It also shows it is easier for such organisations to develop trust relationships with all their stakeholders [Sekhar, 2002]. Trust in US business for e.g. was reporting to experience its lowest level post Enron in 2009. The word has been more emphasised in 2009 as compared to 2006 and it is now ranked 6^{th} as compared to rank 10 earlier [Sharbatoghlie, 2013].

Whether or not business ethics has a positive influence on financial performance is still an open research question. Some authors assert that the only social function of the firm is to maximize the shareholder value while complying with the rules of the market. The line of research argues ethical investments are in conflict with the primary profit-oriented strategies of the company. Authors argued that if investors care enough about ethical behaviour under the enactment to punish bad performance, firm would have a market- based incentive to behave ethically [Friedman 1970; Schwab 1996]. The existence of regulations like the Sarbanes-Oxley legislation [Rockness, 2005] is an indication that such incentives are uncertain.

By contrast, other authors have argued that proactive ethical initiatives have a positive impact on financial performance because ethical behaviour derives in the creation of intangible assets, which are vital in long-term business success [Jones, 1995]. Intangibles like good reputation, trust, and commitment are generated through a strong ethical stance [Fombrun, 2000]. We agree with this latter line of research. By behaving ethically, a company generates intangible gains that improve its ability to attract resources, enhance performance, and build competitive advantages while satisfying its stakeholders' needs [Fombrun, 2000]

Higher ambition leaders create economic and social value. They place great emphasis on developing their organisations as global communities' i.e. social organisations that create a mutual sense of belonging that transcends business and functional differences as well as professional, ethnic, cultural and national identities. Why did they do so? Because the CEO's have learned that creating a strong social fabric is fundamental to the health of the enterprise and to its financial success [Beer, 2011]. However, showing even the strongest linkage of two factors does not demonstrate that one causes the observed changes in the other.

In another study the hypothesis that a significant commitment to the success of a complete ethics or conduct program is an important cause of superior corporate performance would be supported if there was a strong relationship between companies making a public ethics commitment and Ethics Officer Association (EOA) membership. However the facts do not uphold this premise. There is no significant difference in the performance of the companies that are non-members [Verschoor, 1999].

If employees understand that an ethics program was created to help guide behaviour and reinforce company values, the program is significantly more successful than one that employees believe was established strictly for compliance purposes. They have also studied the association of a values-oriented rather than a compliance-oriented ethics program with desirable employee attitudes and behaviours. The findings show that employee commitment, integrity, and better communication were associated with a values-oriented ethics program. An ethical culture spreads from clear and unequivocal goal setting at the top and openness throughout the organisation. On the other hand, compliance has to do with rules, hierarchy, and sanctions [Verschoor, 1999]. For example if a company declared all gift giving as unethical, it wouldn't be able to do business in Japan. What make the routine practice of gift giving acceptable in Japan are the limits in its scope and intention [Donaldson, 1996].

BE is a challenge with 3 parts:

1. Developing managers as moral individuals.
2. Building an environment in which standards and values are central to the company's strategy just as economic performance is and
3. Formulating and implementing policies that support ethical performance-as well as safeguards to assure that they are observed [Andrews, 2003]

It is proposed that organisations need to focus on ethics which will lead to enhanced performance. However, they need not focus only on ethics or only on profits. They need to keep their eye on both ethics and profits. It is not an either or situation. When organisations focus on both Concern for Profitability and Concern for Ethical Practices, they can do more discretionary activities and allow for opportunity costs, resulting in sustainable growth and value based leadership. Thus, it should not be an either or situation i.e. either ethics or profits? Both ethics and profits must be focussed on. The following figure proposed by the researcher explains this proposition:

Figure 3.1: Organisations to Focus on Ethics and Profits

CONCERN FOR ETHICS			
	HIGH	Will not be able to sustain itself in the long term as there is low concern for profitability	More likely to be successful and such organisations- likely to do more discretionary activities CSR and improved reputation leading to the positive outcomes.
	LOW	Possibility of such firms existing and surviving is negligible	Negative reputation. It will be financially successful but over the long term reputation will lead to employee turnover, consumer rejection, socially responsible investors will not invest in this org impacting the financial outcomes
		LOW	HIGH
		CONCERN FOR PROFITABILITY	

How long can a company prevail if its employees, consciously or unconsciously perceive their products, processes or corporate goals as harmful to human kind [Seglin, 2000]?Thus, what may help for sustainable growth may be concern for both, ethics and profits?

SUMMARY

There have been a seemingly endless and large number of studies on the relationship between the social and financial performance of the corporation. The bulk of empirical research on corporate social performance (CSP) has addressed a hypothesized relationship between CSP and financial performance. The results of these studies attempting to link 'socially responsible' behaviours to either market or accounting based measures of firm performance have been ambiguous at best, partly because of methodological problems related to the measurement of CSP and partly because the relationship itself is unclear. Financial data are, of course readily available, reasonably consistent and relatively easily measurable [Waddock, 1997]. Hence, in this study the impact on financial data is taken into account. There is clear evidence of a very strong connection between superior corporate performance and a public statement by corporate management of a strategic reliance on ethics. The link exists for both financial and non-financial criteria. However, the mere presence of an ethics code or even a well executed ethics program does not itself cause superior performance. The most critical factors appear to be both the nature of the values upon which the corporate culture is based as well as the strength of the top management commitment to ethical treatment of stakeholders which is expressed in actions and not just in words [Verschoor, 1999]. As Chris Graff said, 'It's just a moral or ethical issue for me'. When we make a decision to do something we should be able to explain that decision in the same way to anybody who asks, be it our spouse, our business partner an employee, a creditor or a customer. He says 'I have to sleep at night' [Seglin, 2000].

The link between ethical commitment and economic advantage is both fragile and ever changing. The increasing concern with ethics is less because of any inherent connection between ethics and economic advantage than with changes in the business environment and the expectations from leading companies today. The recent concern is due to the Ethical Deficit that is being felt across organisations and across countries. So 'Ethics counts" is a more appropriate approach as compared to 'Ethics pays' and hopefully a shift away from the original thought that 'Ethics costs' [Paine, 2003]. However with business always looking at Return on Investment (ROI), having a justification that it pays to be ethical is important [Shantaram, 2006]. In this chapter we have seen how EBP and CFP are defined within the phenomena of Ethics in the organisational context. Based on the challenges of measuring both EBP and the CFP we have been able to establish the need for this study. The ‘morality pays’ argument has proven especially appealing to business ethicists who understandably feel pressure to respond to the economic concerns of shareholders and other stakeholders [Corvino, 2006]. However, for the future what may be preferable is that both ethics and profitability are focused on.

Chapter 4: Research Methodology and Pilot Study

The research involved two parts to the study. The first part of the study involves the development of the questionnaire for Ethical Business Practices and the second part of the study is to show the relation between Ethical Business Practices and Corporate Financial Performance.

Figure 4.1: Suggested Procedures for Developing Better Measures

1. Specify domain of construct

↓

2. Generate Sample of items from Literature review, expert opinion and pilot study

↓

3. Purify the measures

↓

4. Factor analysis

↓

5. Collect data

↓

6. Assess Coefficient alpha reliability Split-half reliability

Source: Suggested Procedure for Developing Better Measures [Churchill, 1979]

The above steps were followed in the development of the questionnaire for the ethical business practices.

METHODOLOGY

Phase I Literature Review: There was extensive literature survey reviewed in the domain of ethics, business ethics, corporate governance, corporate social responsibility, corporate social responsiveness and corporate social performance. Also, related areas like corporate performance and performance of HPO's (High performing organisations) etc.

Phase II Questionnaire Development: During this phase the questionnaire was developed based on the literature review. It was tested through the pilot study to identify EBP. Based on the responses a few additional practices were included for the larger study.

Phase III Data Collection: After the research activity of developing the sampling frame and after the practical activity of gaining access to sample organisations, data collection phase was carried out on ethical business practices. The data for corporate financial performance was got from prowess. The list of ET 500 companies was got from the published list. The research methodology used for the study was the questionnaire survey and parallel personal interviews for a few to address the research question.

Phase IV Data Analysis and Findings: This phase was a culmination of the analysis of the findings emanating from phase III. Variety of statistical techniques was used and interpretations were drawn. Correlation, Anova, EFA/CFA was used on the data.

Phase V Thesis Writing: The last phase was the thesis writing phase. A discussion of the conclusions and recommendations formed the last part of the thesis. Contributions of the study, future research scope, limitations of the study along with suggestions for implementations of ethical business practices.

4.1 RESEARCH METHODOLOGY

The research attempted to answer the research questions. What kind of ethical business practices are prevalent among the Indian corporates? Based on the existing literature and the researcher's own experience and observation from the field, variables are identified, the variables are summarized. Both Qualitative and Quantitative research approach is used. Qualitative research approach is used in order to get the insight on the concepts of ethical business practices. The Quantitative research approach is employed in order to measure the constructs and confirm the idea of the theory. Subsequently in order to understand the degree of relation between constructs, both exploratory research and descriptive research design is used in the study. Based on Quantitative approach, a survey research method is used. Questionnaire is used as a method of data collection. In terms of qualitative data, content analysis is used. This chapter explains the framework of the research which includes problem formulation, objective of the study, Measures used in the study and method of data collection.

Problem Formulation:

1. There has been no comprehensive study in the areas of business ethics and corporate performance, at best there has been a reference made to corporate social responsibility and corporate performance.

2. There has been no complete list or in-depth description of ethical practices followed by an organisation. There have been studies that look at one aspect of

ethics and its relation to corporate performance e.g. code of ethics or ethics training and its impact on corporate performance. Thus there is a gap which this research aims to fulfil.

Research Objectives

1. To identify Ethical Business practices and measure them among the Indian corporates

2. To establish association between 'Ethical Business Practices of an organisation and its' Corporate Financial Performance.

3. To develop a model of Ethical Practices in order to facilitate their establishment and implementation.

Research Hypotheses

The research hypotheses (alternate hypotheses) were based on the review of literature and objectives of the study. They were as follows:

H1: There is a statistically significant difference between the EBP across types of industries.

H2: There is a statistically significant correlation between EBP and Earnings per Share (a variable of CFP)

H3: There is a statistically significant correlation between EBP and Closing price of share (a variable of CFP)

H4: There is a statistically significant correlation between EBP and Sales (a variable of CFP)

H5: There is a statistically significant correlation between EBP and Salaries and wages (a variable of CFP)

H6: There is a statistically significant correlation between EBP and Staff Welfare (a variable of CFP)

H7: There is a statistically significant correlation between EBP and Profit after Tax (a variable of CFP)

H8: There is a statistically significant correlation between EBP and Capital Reserves (a variable of CFP)

H9: There is a statistically significant difference between the relevance and practice of EBP.

Pilot Study

This presents the pilot study conducted for the purpose of creation of a questionnaire for listing the ethical practices in organisations. The aim was to find out what were the various practices laid down by the company with regards to ethics. There was no comprehensive list of ethical practices available [Shantaram, 2011]. Creation of the questionnaire was based on literature review presented in Chp.3. The ethical practices were then classified under various heads. The questionnaire was then administered to around ten employees of each of the four companies from the list of Economic Times top 500 companies. Thus, the sample size for the pilot study was forty managers from middle management in these four companies. The pilot study checked for the relevance of the ethical practices so as to modify the final list of practices. It also found out whether the particular ethical practice was practiced in their organisation and also to rank the practices they found relevant in order of importance. This was used to generate the final list of ethical practices which organisations can put in place in their organisation if they would want to practice and create an ethical culture.

The questionnaire (Appendix I) has been created based on the literature review in Chapter 3. The Ethical Practices Questionnaire had 7 sections: CSR, Diversity, General Framework, Employees, Government (SEBI), Environment, and Customer.

The respondents were to tick the items based on whether they found it relevant i.e. yes, no. The second response they had to make was whether it was practiced in their organisation, yes, no or blank for not aware. In the third column they had to rank in order of importance the practices that they had marked as relevant, 1 being most important going down to 2 next most important and so on. Only the yes and no responses were taken for calculating percentages. The option of 'not aware' was not taken into account for the calculation.

The information thus collated was used to understand the practices found to be most relevant. To understand the practices found to be highly relevant but not practiced i.e. with the largest gaps between relevance and being practiced under each of the 7 heads i.e. CSR, Diversity, Framework, Employees, Government etc., Environment and Customer.

Space was given to suggest additional ethical business practices.

All the practices were found to be relevant. The relative percentages of what were considered relevant and what was being practiced was stated. The gap in percentage terms was also calculated between relevance and practice.

Overall the percentage for all aspects of ethical practices to the extent being practiced in the organisation was less than how relevant it was found. Only for the section of customers (the percentage was equal). The findings indicate that all the practices listed were found to be relevant i.e. each received a percentage weightage above 60%.

The section for Diversity received the lowest response in terms of relevance and also for it being practiced. For customers the percentage for it being relevant and practiced was the same. The biggest gap i.e. between relevance and being practiced of 25% was found in the section for Environment followed by the General framework wherein the gap is 16%.Among the 7 sections the highest weightage in terms of relevance was given to Employees and then customers. Some individual items which received the highest ranking in terms of relevance were:

- Fair opportunities in training and promotion
- Good/safe working conditions
- Timely payment of salaries
- Payment of organisation taxes
- Following guidelines listed by SEBI
- Actions to prevent global warming and carbon footprints
- Providing complete information to the client and keeping client information confidential
- The Organisation spends a certain percentage of the profit on CSR activities.
- Volunteering employee hours
- Women representation
- Ethics code
- Code of punishment for sexual harassment

Summary of Pilot study

Though this pilot study was conducted in 4 distinct organisations in different sectors with a sample of 40 individuals, the findings are consistent. The findings can help organisations to understand what the relevant ethical practices are. They can incorporate those which they are currently not practicing if they would like to move towards an ethical culture. Overall the message was that though many of these ethical practices are considered relevant by the employees but they are practiced to a lesser extent in the organisations.

Development of the final questionnaire

After the pilot study a few additions to the list of EBP were made based on the suggestions of the respondents. Then the final list of 26 Ethical Business Practices (EBP) was generated. This questionnaire (Appendix II) was administered to a total of 121 members from 10 organisations. The EBP were checked (rating scale 1 to 5 – 1 being least relevant to 5 being extremely relevant) for how relevant each item was in relation to ethics. Each statement was also checked for the extent to which it is practiced in their organisation (rating scale of 1 to 5 with 1 being that it is practiced to some extent and 5 being that it is being practiced to a great/large extent).

Interviews - Exploratory Survey

In order to understand the respondents view towards ethics in general and also whether they believed that EBP was beneficial, the interview was conducted on 10% of the respondents (Appendix III).

Data Collection Method

The questionnaire was administered to 121 managers from 10 organisations from the list of ET 500 companies. The organisations were randomly selected from the ET 500 list (Appendix IV). The reason for choosing the ET 500 list was that the financial parameters were already identified and they were among the high performing companies as they have featured in the list.

To find out if there was a correlation between the Ethical Business Practices (EBP) and the Corporate Financial Performance (CFP) of the organisation variables related to financial performance were to be identified.

There were innumerable financial factors which could be considered. The final 7 financial factors (Appendix V) considered were Earning Per Share (EPS), Closing Price of Shares (CPS), Sales, Salaries and Wages, Staff Welfare, Profit after Tax (PAT) and Capital Reserves. These were chosen on the basis of literature review and expert opinion. The financial data was extracted from Prowess.

The rationale for using the above financial indicators was that most previous research has inconsistently used one or only a few measure to assess financial performance (for example, profitability measures such as net income [Friedman, 1970], earnings per share, return to investors [Abbott, 1979] and return on equity[Bowman, 1975] based apparently on the criteria of convenience to the researcher and in terms of the ease of getting data for analysis. Only financial measures rather than market derived measures to be used because market measures may be assessing more than just the financial outcome of the organisation [Griffin, 1997] Researchers have used 80 different measures of corporate financial performance. Of those 80 financial measures, 57 measures have been used by only one researcher at one time. This means that over 70% of financial performance measures were used only once. Without the repeated use of the same measures, it is difficult to develop validity or reliability checks for most of the financial measures [Griffin, 1997]. Expert opinion also supported the selection of the indicators.

A key feature of the list was that since 2007, the ranking of India's 500 largest listed companies has been based on net sales during the previous fiscal. In 2010 only selected companies that have less than 90% of purchased goods relative to total revenue while also taking into account the ratio of total revenue to gross assets. A very high ratio implies that the company has a very low asset base, which indicated trading activities for companies other than services companies. Hence the ET 500 was an appropriate choice for financially high performing companies.

Statistical Tools and Statistical Techniques used:

This chapter presented the research methodology adopted to achieve the objective using various statistical techniques such as Univariate, Bivariate and Multivariate techniques. To explore and diagnose the variables univariate analysis such as descriptive statistics, frequency distribution, ranking order were used. To explore the initial relationship among the variables, techniques like exploratory factor analysis was used. Subsequently to confirm the variables which measured the construct, confirmatory factory analysis was used. In order to establish the relation between ethical business practices and selected financial performance indicators, correlation was employed, further in order to understand the significant difference on ethical business practices across the industry one way anova was used.

Factor Analysis:

Some analysts like to perform a factor analysis on the data before doing anything else in the hope of determining the number of dimensions underlying the construct. Factor analysis can indeed be used to suggest dimensions, and the marketing literature is replete with articles reporting such use. Much less prevalent is its use to confirm or refute components isolated by other means. For example in discussing a test composed of items tapping two common factors, verbal fluency ad number facility, Campbell comments: When factor analysis is done before the purification steps suggested heretofore, there seems to be a tendency to produce many more dimensions than can be conceptually identified. This effect is partly due to the 'garbage items' which do not have the common core but which do produce additional dimensions in the factor analysis. Though this application may be satisfactory during the early stages of research on a construct, the use of factor analysis in a confirmatory fashion would seem better at later stages.

Factor analysis is used to uncover the latent structure (dimensions) of a set of variables. It reduces attribute space from a larger number of variables to a smaller number of factors and as such is a 'nondependent' procedure (that is, it does not assume a dependent variable is specified). Factor analysis could be used for any of the following purposes: 1) To reduce a large number of variables to a smaller number of factors for modeling purposes, where the large number of variable precludes modeling all the measures individually. As such, factor analysis is integrated in structural equation modeling (SEM), helping confirm the latent variables modeled by SEM. However, factor analysis can be and is often used on a stand-alone basis for similar purposes. 2) To establish that multiple test measure the same factor, thereby giving justification for administering fewer tests.

- To validate a scale or index by demonstrating that its constituent items load on the same factor and to drop proposed scale items which cross lead on more than one factor.
- To select a subset of variables from a larger set based on which original variables have the highest correlation with the principal component factors.
- To create a set of factors to be treated as uncorrelated variables as one approach to handling multi-collinearity in such procedures as multiple regression.
- To identify clusters of cases and or outliers.

There are several different types of factor analysis, with the most common being principal components analysis (PCA), which is preferred for purposes of data reduction. However, common factor analysis is preferred for purposes of causal analysis and for confirmatory factor analysis in structured equation modeling, among other settings.

Exploratory factor analysis (EFA) seeks to uncover the underlying structure of a relatively large set of variable. The researcher's a priori assumption is that any indicator may be associated with any factor.

Confirmatory factor Analysis (CFA) seeks to determine if the number of factors and the loadings of measured (indicator) variables on them conform to what is expected on the basis of pre-established theory. Indicator variables are selected on the basis of prior theory and factor analysis is used to see if they load as predicted on the expected number of factors. The researcher's a priori assumption is that each factor (the number and labels of which may be specified a priori) is associated with a specified subset of indicator variable. A minimum requirement of confirmatory factor analysis is that one hypothesizes beforehand the number of factors in the model, but usually also the researcher will posit expectations about which variables will load on which factors [Kim, 1978]. The researcher seeks to determine, for instance, if measures created to represent a latent variable really belong together.

The SEM approach Confirmatory factor analysis can mean the analysis of alternative measurement (factor) models using a structural equation modeling package such as AMOS or LISERAL. While SEM is typically used to model causal relationships among latent variables (factors), it is equally possible to use SEM to explore CFA measurement models.

Types of factoring

There are two major methods of extracting the factors from a set of variables: common factor analysis also known as principal factor analysis, (PFA) and principal components analysis (PCA). If the researcher does not have a causal model but simply wants to reduce a large number of items to a smaller number of underlying latent variables, then PCA is used. As this is the most common research purpose, PCA is the most common extraction technique. However, if the researcher does have an explicit causal model then PFA is the preferred choice.

Factor Loadings: The factor loadings, also called component loadings in PCA are the correlation coefficients between the variables (rows) and factors (column). Analogous to Pearson's r the squared factor loadings are the percent of variance in that indicator variable explained by the factor. To get the percent of variance in all the variables accounted for by each factor, add the sum of the squared factor loadings for that factor (columns) and divide by the number of variables (note the number of variables equals the sum of the variance as the variance of a standardized variable is 1.) This is the same as dividing the factor's eigenvalue by the number of variables.

Interpreting factor loadings By one rule of thumb in confirmatory factor analysis, loadings should be .7 or higher to confirm that independent variables identified a priori are represented by a particular factor, on the rationale that the .7 level corresponds to about half of the variance in the indicator being explained by the factor. However, the .7 standard is a high one and real life data may well not meet this criterion, which is why some researchers, particularly for exploratory purposes, will use a lower level such as .4 for the central factor and .25 for other factors. [Hair, 2008] called loadings above.6 'high' and those below .4 'low'.

The sum of the squared factor loadings for all factors for a given variable is the variance in that variable accounted for by all the factors and this is called communality. In a complete PCA, with no factors dropped, this will be 1.0 or 100% of the variance. The ratio of the squared factor loadings for a given variable (row in the factor matrix) shows the relative importance of the different factors in explaining the variance of the given variable. Factor loadings are the basis for imputing a label to the different factors.

Communality: h^2, is the squared multiple correlation for the variable as dependent using the factors as predictors. The communality measures the percent of variance in a given variable explained by all the factors jointly and may be interpreted as the reliability of the indicator.

Eigen values: Also called characteristic roots. The Eigen value for a given factor measures the variance in the entire variable which is accounted for by that factor. The ratio of eigenvalues is the ratio of explanatory importance of the factors with respect to the variables. If a factor has a low eigenvalue, then it is contributing little to the explanation of variances in the variable and may be ignored as redundant with more important factors.

Factor Scores: Also called component scores in PCA, factor scores are the scores of each case (row) on each factor (column). To compute to compute the factor score for a given case for a given factor, one takes the case's standardized score on each variable, multiplies it by the corresponding factor loading of the variable for the given factor, and sums these products. Computing factor scores allows one to look for factor outliers. Also, factor scores may be used as variables in subsequent modeling.

Kaiser criterion: A common rule of thumb for dropping the least important factors from the analysis is the K1 rule. The Kaiser rule is to drop all components with eigenvalues under 1.0. It may overestimate or underestimate the true number of factors; the preponderance of simulation study evidence suggests it usually overestimates the true number of factors, sometimes severely so. The Kaiser criterion is the default in SPSS and most computer programs but is not recommended when used as the sole cut off criterion for estimating the number of factors [Field., A. 2008].

Variance explained criteria: Some researchers simply use the rule of keeping enough factors to account for 90% (sometimes 80%) of the variation. Where the researcher's goals emphasize parsimony (explaining variance with as few factors as possible) the criterion could be as low as 50%.

Rotation Methods: Rotation serves to make the output more understandable and is usually necessary to facilitate the interpretation of factors. The sum of eigenvalues is not affected by rotation, but rotation will alter the eigenvalues (and percent of variance explained) of particular factors and will change the factor loading. If factor analysis is used, the researcher may wish to experiment with alternative rotation methods to see which leads to the most interpretable factor structure.

Varimax rotation: is an orthogonal rotation of the factor axes to maximize the variance of the squared loading of a factor (column) on all the variables (rows) in a factor matrix, which has the effect of differentiating the original variables by extracted factor. Each factor will tend to have either large or small loadings of any particular variable. A varimax solution yields results which makes it as easy as possible to identify each variable with a single factor. This is the most common rotation option.

Correlation: The application of correlation analysis is to measure the degree if association between two sets of quantitative data. The correlation coefficients of all the variables also provide a good indicator of which variable correlates with the dependent variable more. Pearson correlation procedure is used for all these methods. The values in the correlation table are standardized and range from 0 to 1 (+ ve and – ve).

Other forms of validity are measured empirically by the correlation between theoretically defined set of variable. The three most widely accepted forms of validity are convergent, discriminant and nomological validity. Convergent validity assesses the degree to which two measures of the same concept are correlated. High correlation indicates that the scale is measuring its intended concept. Discriminant validity is the degree to which two conceptually similar concepts are distinct. The empirical test is again the correlation among measures, but this time the summated scale is correlated with a similar but conceptually distinct measure. In this case the correlation should be low. Nomological validity refers to the degree that the summated scale makes accurate prediction of other concepts in a theoretically based model. Evidence of the nomological validity of the measure is provided by the extent to which it correlates highly with other methods designed to measure the same construct.

Pearsons product moment correlation was determined to be more appropriate for the assessment of nomological validity.

Ethical Considerations

As this study required the participation of human respondents, certain ethical issues were addressed. The consideration of these ethical issues was necessary for the purpose of ensuring the privacy. Among the significant ethical issues that were considered in the research process include consent and confidentiality. In order to secure the consent of the selected participants, the researcher relayed all important details of the study, including its aim and purpose. By explaining these important details, the respondents were able to understand the importance of their role in the completion of the research. The confidentiality of the participants was also ensured by not disclosing their names or personal information in the research. Only relevant details that helped in answering the research questions were included. Finally even the organisations were coded and organisation names not disclosed.

Summary:

One of the objectives of the study was to measure the ethical business practices in corporate India. With the help of literature review, pilot study and expert review 26 variables were identified. All these variables were exploratory in nature so exploratory factor analysis was done by using PCA extraction. In order to confirm these extracted variables, E/CFA approach is adopted, that is, extracting variables in EFA by using ML estimation, then the number of variables came to be 12 and factors were 3.In order to confirm these, factor structure, loadings relation CFA was done.

One way anova was used to check for significant difference in perception of Practice and Relevance to Business Ethics in the various attributes.

Pearson Correlation between the EBP score and the CFP (7 financial parameters) was done.

Cronbach alpha reliability test was done on the questionnaire.

Guttman split half test was done on the final 12 items.

Chapter 5: Data Presentation, Analysis and Interpretation

The 10 organisations from the Economic times top 500 companies were used for this study.

The total sample was 121 respondents. The company wise distribution of the number of respondents and the demographic profile is given below in the various tables.

5.1 Demographic Profile of the Respondents Distribution

Table 5.1: Company Wise Distribution of Respondents

Sr. No.	Company code	No. of Respondents	Percentage of Respondents
1.	CO1	13	10.7
2.	CO2	12	9.9
3.	CO3	17	14.0
4.	CO4	11	9.1
5.	CO5	10	8.3
6.	CO6	15	12.4
7.	CO7	17	14.0
8.	CO8	8	6.6
9.	CO9	11	9.1
10.	CO10	7	5.8
	Total	**121**	**100**

Table 5.1 showed the sample composition of company wise distribution, company CO10 consisted 7 respondents, which was low in the distribution, Company Co3 and

CO7 consisted 17 respondents each. Total number of respondents among 10 companies was 121.

Table 5.2: Level of Management

Sr. No.		No. of Respondents	Percentage of Respondents
1	Middle Level	88	72.73
2	Sr. Level	26	21.49
3	Juniors	7	5.79
	Total	**121**	**100.00**

The table 5.2 clearly depicts that majority of the respondents were at Middle Level Management constituting to about 72% who operate at Middle Level and next about 21% at Sr. Level and only about 5% at Junior level of management. The senior or middle management were in a better position to understand the concept of ethics and the practices in the organisation and hence they were chosen.

Table 5.3: Age of Respondents

Sr. No.		Frequency	Percentage of Respondents
1	Less than 35 yrs	56	46.28
2	36-46 yrs	50	41.32
3	47 and above yrs	15	12.40
	Total	**121**	**100.00**

Next, the demographic factor Age was observed under the three categories. Each group was categorized on basis of number of years namely: Less than 35 years, 36-46 years, and 47and above years. From the table 5.3, we see that the difference was sizable in the category of less than 46 years when compared with above 47years categories of age.

Table 5.4: Gender

Sr. No.		No. of respondents	Percentage of Respondents
1	Male	95	78.51
2	Female	26	21.49
	Total	**121**	**100.00**

The above table 5.4shows the gender distribution of the respondents. The above table reflects that there is noteworthy difference between Male and Female respondents where Male respondents constitute to higher percentage constituting to about 78% whereas the Female respondents constituted to 21%. This could be a reflection of the number of women holding middle and senior management position.

Table 5.5: Overall Experience in the Industry

Sr. No.		No. of respondents	Percentage of Respondents
1	Less than 10 years	47	38.84
2	10 to 15 years	30	24.79
3	Over 15 years	44	36.36
	Total	**121**	**100.00**

The above table 5.5 clearly shows the Overall Experience of the respondents in the Industry. The group was categorized on basis of number of years namely less than 10yrs, 10 to 15 years, and Over 15 years. From the table 4, we see that the effect of variance was sizable with overall experience of less than 10yrs and Over 15 years constituting to 38% and 36% respectively. The lesser distribution was observed among respondents with overall experience of 10 to 15 years which constituted to 24%.

Table 5.6: Experience in the Present Industry

Sr. No.		No. of Respondents	Percentage of Respondents
1	Less than 5 years	61	50.41
2	5 to 10 years	38	31.40
3	Over 10 years	22	18.18
	Total	**121**	**100.00**

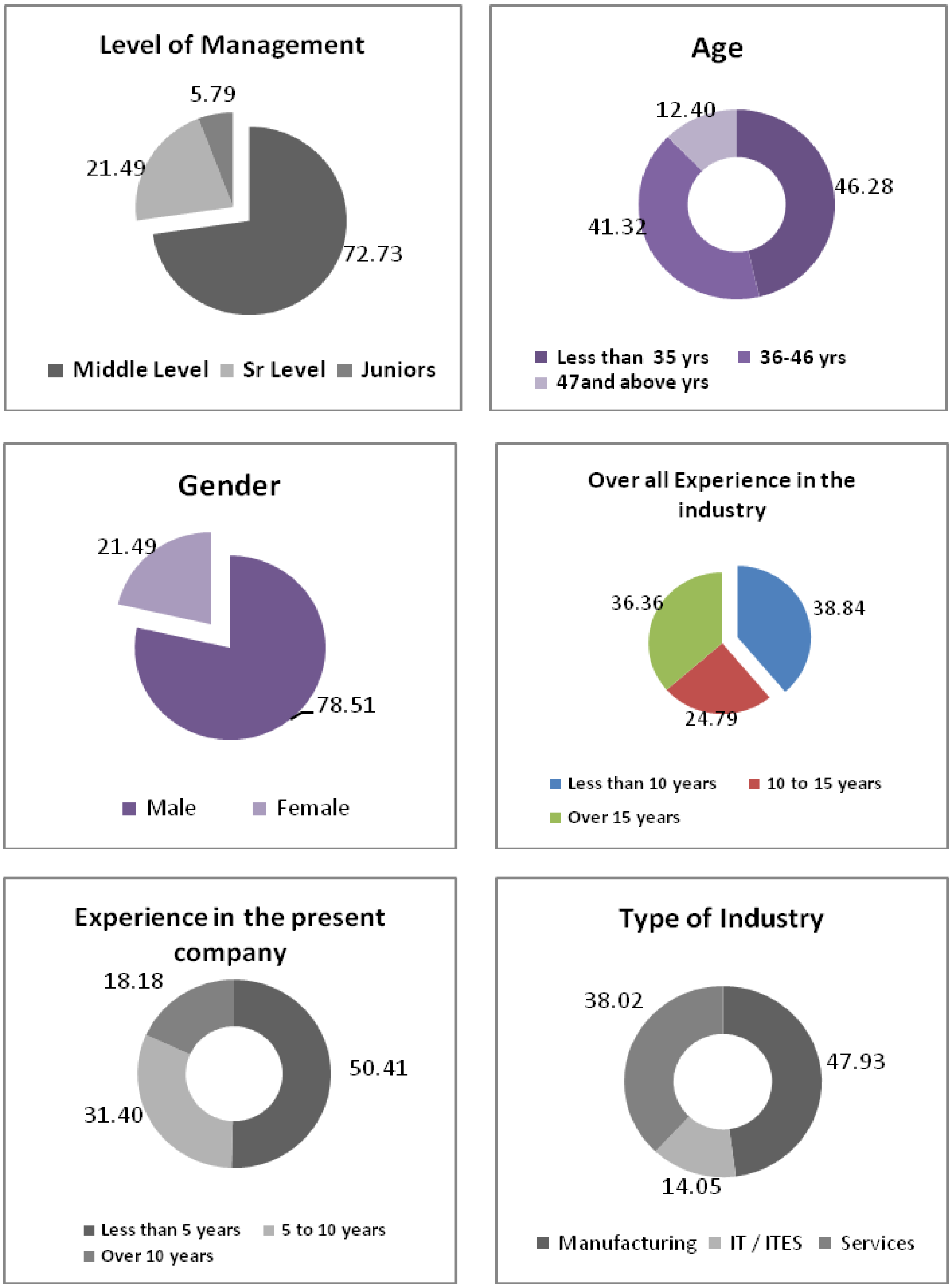
The above table 5.6 clearly shows the Experience of the respondents in the present Industry. The group was categorized on basis of number of years namely: Less than 5years, 5 to 10 years, and Over 10 years. The results reflect that about 50% of respondents were with less than 5years experience in the present Industry and next with 5 to 10 years' experience in the present Industry constituting to 31%. A lesser distribution was observed among respondents with experience of Over 10 years which constituted to 18%. Keeping in mind the age of the respondents i.e. mainly young, hence their experience also likely to be less.

Table 5.7: Respondents from Type of Industry

Sr. No.		No. of Respondents	Percentage of Respondents
1	Manufacturing	58	47.93
2	IT / ITES	17	14.05
3	Services	46	38.02
	Total	**121**	**100.00**

The respondents were from different types of Industries. Information about the type of industry of the respondents was collected. The largest number of respondents was found to be working in the manufacturing sector constituting to 47%. Next, were from the Services sector constituting to 38%. With noteworthy difference the IT/ITES sector constituted 14% of the respondents.

Figure 5.1: Graphic Distribution of Sample on Demographic Variables



5.2 STATISTICAL ANALYSIS

Below is the statistical analysis of the 26 items.

Table 5.8: Statistical Analysis

Item-Total Statistics

		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
1.	The organisation spends a significant percentage of the profit on social development activities	106.69	113.264	.456	.855
2.	The organisation has a well thought out CSR policy just not charity and donations	106.36	114.917	.466	.855
3.	CSR is based on the urgent needs of the communities it works in	106.57	116.414	.314	.861
4.	It volunteers employee hours towards social projects	106.79	113.932	.430	.856
5.	It has a significant minority representation across the employees level	107.20	118.044	.252	.863
6.	It has a fair level of Women representation	106.75	113.505	.407	.858

		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
	on the companies roll				
7.	It has number of Independent directors as per SEBI guidelines	106.27	119.733	.236	.862
8.	It has a clearly laid out ethics code	105.83	118.761	.476	.856
9.	It enforces ethics training across its employees	106.12	116.576	.424	.856
10.	There is a specially designated Ethics officer	106.98	113.074	.435	.856
11.	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	106.41	116.694	.346	.859
12.	It enforces Code of conduct for outsourced companies	106.31	115.117	.464	.855
13.	Code for punishment of sexual harassment is clearly designed and communicated to all employees	105.98	114.574	.543	.853

		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
14.	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international)	106.42	118.513	.348	.858
15.	There is fair opportunities in promotion and reward systems	106.07	114.662	.530	.853
16.	The company ensures good and safe working conditions for the employees	105.75	118.505	.567	.855
17.	It ensures timely payment of salaries	105.55	123.933	.265	.861
18.	It ensures timely payment to vendors	105.93	117.486	.497	.855
19.	It ensures timely payment of taxes etc. (no fines levied)	105.71	120.324	.420	.857
20.	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	105.97	115.749	.539	.853

		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
21.	The organisation practices waste management (e-waste, water recycling etc)	106.02	115.074	.558	.853
22.	It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators	106.41	114.178	.583	.852
23.	The company provides complete information about their products and services to the customers	105.75	120.988	.336	.859
24.	It maintains customer information confidential	105.87	120.399	.290	.860
25.	Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	105.79	119.253	.448	.856
26.	It follows the corporate governance voluntary guidelines	105.86	119.538	.435	.857

Table 5.9: Perceived EBP Items Contributing to the Financial Health of the Organisation

Sr. No.	Statements- Ethical Business Practices	Statistics		
		Count	%	Rank
1.	The organisation spends a significant percentage of the profit on social development activities	14	12.4	12
2.	The organisation has a well thought out CSR policy just not charity and donations.	13	11.5	13
3.	CSR is based on the urgent needs of the communities it works in.	4	3.5	20
4.	It volunteers employee hours towards social projects	3	2.7	21
5.	It has a significant minority representation across the employees level	2	1.8	24
6.	It has a fair level of Women representation on the companies roll	2	1.8	24
7.	It has number of Independent directors as per SEBI guidelines	10	8.8	15
8.	It has a clearly laid out ethics code	10	8.8	15
9.	It enforces ethics training across its employees	7	6.2	18
10.	There is a specially designated Ethics officer	3	2.7	21
11.	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	3	2.7	21
12.	It enforces Code of conduct for outsourced companies.	10	8.8	15
13.	Code for punishment of sexual harassment is clearly designed and communicated to all employees.	1	0.9	26
14.	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory	5	4.4	19
15.	There is fair opportunities in promotion and reward systems	39	34.5	5
16.	The company ensures good and safe working conditions for the employees	34	30.1	8
17.	It ensures timely payment of salaries	38	33.6	7
18.	It ensures timely payment to vendors	50	44.2	2

Sr. No.	Statements- Ethical Business Practices	Statistics		
		Count	**%**	**Rank**
19.	It ensures timely payment of taxes etc (no fines levied)	39	34.5	5
20.	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	42	37.2	4
21.	The organisation practices waste management (e-waste, water recycling etc)	22	19.5	10
22.	It follows Triple bottom line and not just financial indicators	26	23.0	9
23.	The company provides complete information about their products and services to the customers	43	38.1	3
24.	It maintains customer information confidential	17	15.0	11
25.	Company ensures that the promises made to customers are fulfilled (delivery, services, after sales services)	74	65.5	1
26.	It follows the corporate governance voluntary guidelines	13	11.5	13
	Total	**113**		

The above table 5.9 shows the views of the employees as to which aspects or items according to them influence the Financial Health of the Organisation. The respondents were asked to choose the top 5 items from the list of 26 which they perceived were most important in influencing the financial health of the organisation. The number of times it was stated by different respondents is listed in the first column. The second column converts it into percentages. The above table clearly depicts that the Companies which ensures that the promises made to customers are fulfilled is considered as most important and holds the 1st rank constituting to 65%. It was evident that the delivery services and after sales services are considered influential factors showing significant impact in influencing the Financial Health of the Organisation. The 2nd was timely payment to vendors. The 3rd was that the company provides complete information about the products and services to the customers.

Table 5.10: Perceived Items which the Organisations would Practice in-spite of Recession

Sr. No.	Statements - EBP followed despite recession	Statistics		
		Count	%	Rank
1.	The organisation spends a significant percentage of the profit on social development activities	23	20.5	8
2.	The organisation has a well thought out CSR policy just not charity and donations.	16	14.3	14
3.	CSR is based on the urgent needs of the communities it works in.	1	0.9	26
4.	It volunteers employee hours towards social projects	8	7.1	18
5.	It has a significant minority representation across the employees level	2	1.8	24
6.	It has a fair level of Women representation on the companies roll	12	10.7	16
7.	It has number of Independent directors as per SEBI guidelines	5	4.5	21
8.	It has a clearly laid out ethics code	20	17.9	12
9.	It enforces ethics training across its employees	8	7.1	18
10.	There is a specially designated Ethics officer	3	2.7	23
11.	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	4	3.6	22
12.	It enforces Code of conduct for outsourced companies.	8	7.1	18
13.	Code for punishment of sexual harassment is clearly designed and communicated to all employees.	10	8.9	17
14.	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory	2	1.8	24
15.	There is fair opportunities in promotion and reward systems	21	18.8	10
16.	The company ensures good and safe working conditions for the employees	38	33.9	5
17.	It ensures timely payment of salaries	71	63.4	1
18.	It ensures timely payment to vendors	52	46.4	2
19.	It ensures timely payment of taxes etc (no fines levied)	50	44.6	3

Sr. No.	Statements - EBP followed despite recession	Statistics		
		Count	%	Rank
20.	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	26	23.2	7
21.	The organisation practices waste management (e-waste, water recycling etc)	27	24.1	6
22.	It follows Triple bottom line and not just financial indicators	13	11.6	15
23.	The company provides complete information about their products and services to the customers	21	18.8	10
24.	It maintains customer information confidential	20	17.9	12
25.	Company ensures that the promises made to customers are fulfilled (delivery, services, after sales services)	46	41.1	4
26.	It follows the corporate governance voluntary guidelines	23	20.5	8
	Total	**113**		

The respondents were asked to state 5 items from the 26 items which they stated the organisation would practice despite recession. The factor that ensures timely payment of salaries ranked 1st constituting to 63%. It was evident that the organisations would ensure timely payment of salaries in spite of recession. 2nd was timely payment of vendors and 3rd was timely payment of taxes.

Figure 5.2: Percentage of Business Ethics Items Contributes to Financial Health of the Organisation and Practice in spite of Recession

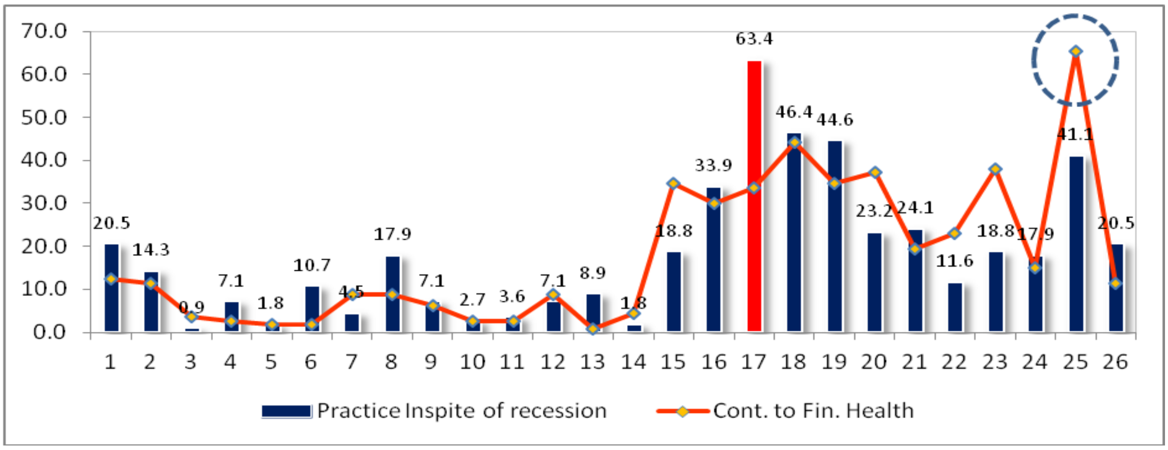


Table 5.11: Gap Analysis – Practice - Relevance to Business Ethics

Descriptive Statistics & One way ANOVA - GAP Analysis Overall

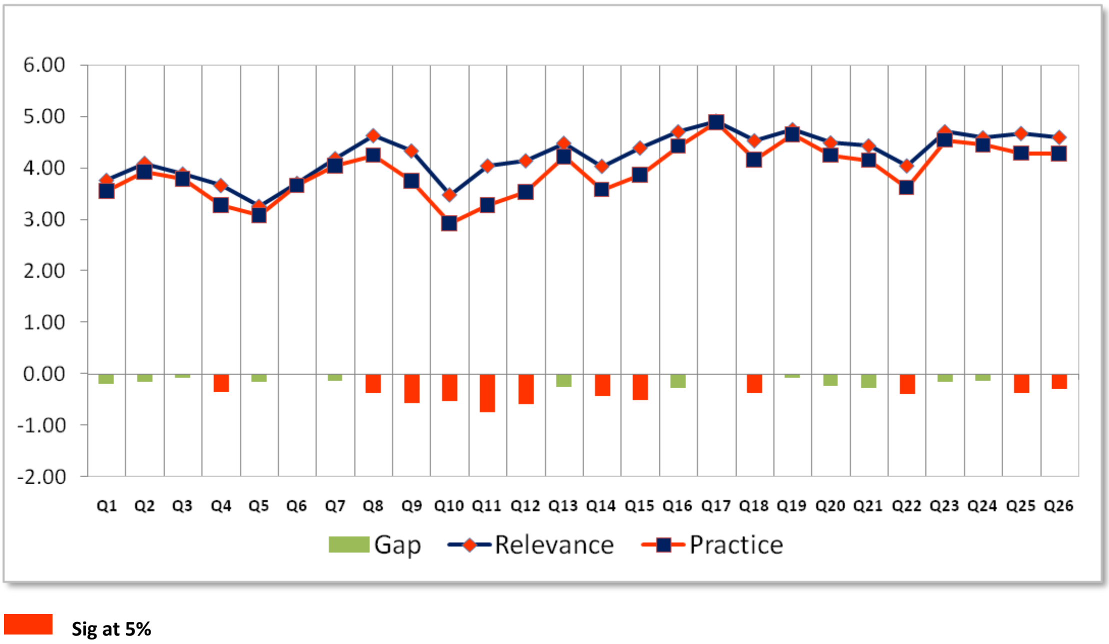
***5% level of significant**

		Relevance		Practice		Gap		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
1.	The organisation spends a significant percentage of the profit on social development activities	3.76	1.16	3.57	1.15	-0.18	0.91	1.69	0.195
2.	The organisation has a well thought out CSR policy just not charity and donations	4.09	1.00	3.93	0.95	-0.16	0.81	1.57	0.211
3.	CSR is based on the urgent needs of the communities it works in	3.88	1.19	3.80	1.01	-0.08	1.05	0.35	0.554
4.	It volunteers employee hours towards social projects	3.66	1.16	3.29	1.20	-0.36	0.86	5.92	0.016*
5.	It has a significant minority representation across the employees level	3.26	1.18	3.09	1.16	-0.16	0.82	1.19	0.267
6.	It has a fair level of Women representation on the companies roll	3.70	1.25	3.68	1.18	-0.02	0.87	0.03	0.861
7.	It has number of Independent directors as per SEBI guidelines	4.18	1.00	4.06	1.02	-0.13	0.74	0.90	0.344
8.	It has a clearly laid out ethics code	4.63	0.65	4.26	0.93	-0.38	0.79	12.85	0.000*
9.	It enforces ethics training across its employees	4.33	0.93	3.76	1.04	-0.57	1.12	20.43	0.000*
10.	There is a specially designated Ethics officer	3.48	1.23	2.93	1.27	-0.53	1.18	11.55	0.000*
11.	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	4.04	1.08	3.29	1.32	-0.75	1.27	23.28	0.000*

		Relevance		Practice		Gap		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
12.	It enforces Code of conduct for outsourced companies	4.14	0.99	3.55	1.19	-0.59	1.14	17.66	0.000*
13.	Code for punishment of sexual harassment is clearly designed and communicated to all employees	4.48	0.90	4.23	0.96	-0.26	0.78	4.50	0.035*
14.	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)	4.03	0.87	3.59	1.10	-0.43	0.99	11.95	0.001*
15.	There is fair opportunities in promotion and reward systems	4.39	0.92	3.88	1.13	-0.50	1.05	14.51	0.000*
16.	The company ensures good and safe working conditions for the employees	4.70	0.57	4.43	0.74	-0.27	0.66	9.96	0.002*
17.	It ensures timely payment of salaries	4.91	0.32	4.90	0.30	-0.01	0.33	0.05	0.819
18.	It ensures timely payment to vendors	4.53	0.73	4.17	0.93	-0.37	0.91	11.33	0.001*
19.	It ensures timely payment of taxes etc. (no fines levied)	4.74	0.57	4.67	0.60	-0.08	0.50	1.05	0.307
20.	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	4.49	0.82	4.26	0.75	-0.23	0.85	5.14	0.024*
21.	The organisation practices waste management (e-waste, water recycling etc)	4.43	0.84	4.16	0.86	-0.27	0.79	6.11	0.014*
22.	It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not	4.04	0.88	3.63	0.93	-0.39	0.89	12.40	0.001*

		Relevance		Practice		Gap		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
	just financial indicators								
23.	The company provides complete information about their products and services to the customers	4.70	0.61	4.55	0.68	-0.15	0.66	3.32	0.070
24.	It maintains customer information confidential	4.59	0.77	4.46	0.73	-0.13	0.53	1.76	0.186
25.	Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	4.67	0.64	4.30	0.88	-0.37	0.87	14.04	0.00*
26.	It follows the corporate governance voluntary guidelines	4.60	0.63	4.29	0.78	-0.30	0.67	11.44	0.001*

Figure 5.3: Gap Analysis – Practice - Relevance to Business Ethics



To prove that there is a statistical significant difference in perception of Practice and Relevance to Business Ethics in the various attributes, Anova was used. The above table 5.11 represents the gap analysis using Anova. Gap analysis was studied comparing the Relevance Mean Score and Practice Mean Score in corporates. The above table clearly shows that most of the attributes showed significant difference between Relevance Mean Score and Practice Mean Score in corporates. Overall, most of the attributes seem to reflect a clear gap which needs attention to enable organisations to increase practicing that which is theoretically necessary and relevant and of a great social importance.

The above graphic feed reveals that there is invariably a “gap” between the practice of the corporate and Relevance of Business Ethics in corporate. The perception gap was primarily observed in almost all the attributes. The significant gap was observed in the attribute Q4 It volunteers employee hours towards social projects. This implies that it is considered important for the corporate to stay involved thereby demonstrating that your business is a responsible community contributor. Next, Q8 It has a clearly laid out ethics code showed significant gap. Hence it should be ensured that they do not misrepresent or misinterpret the documents or ethics code. Q9, enforcing ethics training across its employees recognizes the significance of business ethics training as a tool for achieving the desired outcome. Q10. Specially designated Ethics officer recognizes the importance that ethics is given in an organisation Q11, Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees and allows ending any dubious activities promptly. Q12, enforcing Code of conduct for outsourced companies is a reflection of their concern for fair practices and shows that they are serious about it and treat others with professional respect and courtesy. Q13. Code for punishment of sexual harassment is clearly designed and communicated to all employees may need to be stressed upon. Q14. Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc.). This works to instil a deep-seated theme of business ethics. Q15. Fair opportunities in promotion and reward systems also show significant gap. Q16 & Q18 shows significant gap wherein it is important to ensure good and safe working conditions for the employees and timely payment to vendors with professional respect and courtesy. Q20. Showing concern about the energy efficiency (uses LED lights, water conservation etc) shows a significant gap hence it may be important for the corporate to be a responsible community contributor. It seems environmental concern is still not in the forefront. Furthermore, Q21 the organisation practices waste management (e-waste, water recycling etc) and it follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators shows significant gap. Q25 shows the importance of the company to ensure that the promises made to customers are fulfilled (delivery, services and after sales services) and that the trust is reinforced. Q26. Shows significance at 5% level where following the corporate governance voluntary guidelines seem to show significant gap.

Table 5.12: Top 10 Statements Found to be Relevant to EBP

Top 10- Relevance to EBP	
Statements	**Mean Score out of 5**
Q17. It ensures timely payment of salaries	4.91
Q19. It ensures timely payment of taxes etc. (no fines levied)	4.74
Q16. The company ensures good and safe working conditions for the employees	4.7
Q23. The company provides complete information about their products and services to the customers	4.7
Q25. Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	4.67
Q8. It has a clearly laid out ethics code	4.63
Q26. It follows the corporate governance voluntary guidelines	4.6
Q24. It maintains customer information confidential	4.59
Q18. It ensures timely payment to vendors	4.53
Q20. The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	4.49

Table 5.13: Bottom 10 Statements Found to be Relevant to EBP

Bottom 10- Relevance to EBP	
Statements	**Mean score out of 5**
Q5. It has a significant minority representation across the employees level	3.26
Q10. There is a specially designated Ethics officer	3.48
Q4. It volunteers employee hours towards social projects	3.66
Q6. It has a fair level of Women representation on the companies roll	3.7
Q1. The organisation spends a significant percentage of the profit on social development activities	3.76
Q3. CSR is based on the urgent needs of the communities it works in	3.88
Q14. Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)	4.03
Q11. Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	4.04
Q22. It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators	4.04
Q2. The organisation has a well thought out CSR policy just not charity and donations	4.09

Table 5.14: One way ANOVA – Practices of Business Ethics across Industries

Descriptive Statistics & One way ANOVA - Practice of Business Ethics across Industries

Sr. No.		Manufacturing (N=58)		IT/ITES (N=16)		Services (N=46)		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
1.	The organisation spends a significant percentage of the profit on social development activities	3.52	1.05	3.63	0.96	3.61	1.34	0.10	0.902
2.	The organisation has a well thought out CSR policy just not charity and donations	3.79	1.02	4.19	0.66	4.02	0.93	1.41	0.228
3.	CSR is based on the urgent needs of the communities it works in	3.78	0.94	4.00	0.63	3.76	1.20	0.36	0.697
4.	It volunteers employee hours towards social projects	3.40	1.18	3.69	0.79	3.02	1.29	2.31	0.103
5.	It has a significant minority representation	2.93	1.09	3.31	1.01	3.22	1.28	1.12	0.330

Sr. No.		Manufacturing (N=58)		IT/ITES (N=16)		Services (N=46)		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
	across the employees level								
6.	It has a fair level of Women representation on the companies roll	3.36	1.22	3.94	0.85	3.98	1.14	4.15	0.018*
7.	It has number of Independent directors as per SEBI guidelines	4.10	1.02	4.06	1.06	4.00	1.03	0.13	0.879
8.	It has a clearly laid out ethics code	4.00	1.01	4.44	0.73	4.52	0.81	4.64	0.011*
9.	It enforces ethics training across its employees	3.53	1.01	3.69	1.14	4.07	0.98	3.55	0.032*
10.	There is a specially designated Ethics officer	2.84	1.21	2.94	0.85	3.04	1.46	0.31	0.733
11.	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	2.95	1.25	3.63	1.02	3.61	1.42	3.96	0.022*
12.	It enforces Code of conduct for outsourced companies	3.26	1.18	4.00	0.89	3.76	1.21	3.79	0.025*
13.	Code for punishment of sexual harassment is clearly designed and communicated to all employees	3.97	1.04	4.56	0.73	4.43	0.83	4.48	0.013*
14.	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)	3.36	1.12	3.88	0.81	3.78	1.11	2.57	0.081
15.	There is fair opportunities in promotion and reward systems	3.48	1.19	4.31	0.70	4.24	1.02	7.87	0.001*
16.	The company ensures good and safe working conditions for the employees	4.21	0.79	4.69	0.48	4.63	0.68	5.68	0.004*
17.	It ensures timely payment of salaries	4.86	0.35	5.00	0.00	4.91	0.28	1.39	0.252
18.	It ensures timely payment to vendors	3.97	1.08	4.63	0.62	4.26	0.74	3.71	0.028*
19.	It ensures timely payment of taxes etc. (no fines levied)	4.59	0.65	4.75	0.45	4.74	0.57	1.02	0.365
20.	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	4.14	0.78	4.75	0.45	4.24	0.74	4.44	0.014*
21.	The organisation practices waste management (e-waste, water recycling etc)	4.09	0.88	4.75	0.58	4.04	0.84	4.67	0.011*
22.	It follows Triple bottom	3.53	0.91	4.13	0.72	3.59	0.98	2.76	0.068

Sr. No.		Manufacturing (N=58)		IT/ITES (N=16)		Services (N=46)		F Value	Sig value
		Mean	Stdev	Mean	Stdev	Mean	Stdev		
	line (social, financial and environmental accounting in the balance sheet) and not just financial indicators								
23.	The company provides complete information about their products and services to the customers	4.40	0.82	4.56	0.51	4.74	0.49	3.35	0.039*
24.	It maintains customer information confidential	4.28	0.81	4.69	0.48	4.61	0.65	3.72	0.027*
25.	Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	4.12	1.01	4.50	0.73	4.46	0.69	2.43	0.093
26.	It follows the corporate governance voluntary guidelines	4.02	0.86	3.63	0.96	3.61	1.34	7.27	0.001*

***5% level of significance**

To prove that there is statistical significant difference in the practice of Business Ethics across Industries, Anova was used. The above table represents the gap analysis using Anova. Gap analysis was studied comparing the mean score of EBP across Manufacturing, IT/ITES and Services Industries. The above table clearly shows that most of the attributes showed significant difference between Practice Mean Score across Industries.

The above table reveals the significant difference across the industries in the attribute. Q6. In having a fair level of Women representation on the companies roll with a sig. value of 0.02.Next, Q8.reflected sig value of 0.01 in clearly specifying the ethics code Q9 Enforcing ethics training across its employees, Q11. Ethics hotline (reporting misconduct over phone or mail) being functional and accessible to all employees, Q12. Enforcing code of conduct for outsourced companies and Q13. Clearly designing and communicating Code for punishment of sexual harassment to all employees and Q15 fair opportunities in promotion and reward systems, showed significant difference across Industries. Furthermore, Q16 and Q18 in ensuring good and safe working conditions for the employees and timely payment to vendors showed significant difference. Q20. The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc), Q21. Practices waste management (e-waste, water recycling etc), Q23. Providing complete information about their products and services to the customers, Q24 Maintaining customer information confidential and Q26 following the corporate governance voluntary guidelines showed significant difference across Industries.

Figure 5.4: One Way ANOVA – Practices of Business Ethics across Industries

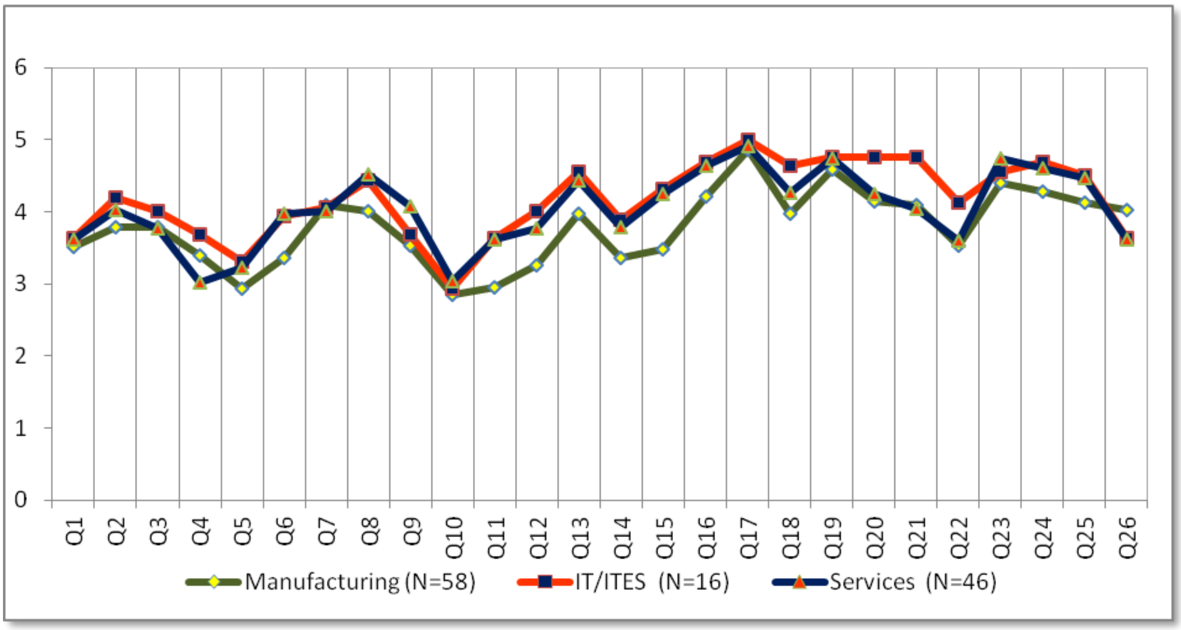


Table 5.15: Top 10 Practices of Ethical Business

Top 10 - Practice of EBP

Statements	Mean score out of 5
Q17. It ensures timely payment of salaries	4.90
Q19. It ensures timely payment of taxes etc. (no fines levied)	4.67
Q23. The company provides complete information about their products and services to the customers	4.55

Statements	Mean score out of 5
Q24. It maintains customer information confidential	4.46
Q16. The company ensures good and safe working conditions for the employees	4.43
Q25. Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	4.30
Q26. It follows the corporate governance voluntary guidelines	4.29
Q8. It has a clearly laid out ethics code	4.26
Q20. The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	4.26
Q13. Code for punishment of sexual harassment is clearly designed and communicated to all employees	4.23

The above table captures the Top 10 Items of EBP which the respondents consider as prevalent i.e. being practiced in organisations across industries.

Of all the EBP, carrying out or ensuring timely payment of salaries is considered to be most often practiced with the high mean score of 4.90 followed by the item, i.e. ensuring timely payment of taxes etc. with a mean score of 4.67. The practice of the code for punishment of sexual harassment is clearly designed and communicated to all employees reflected the lowest mean score of 4.26 among the Top 10 Practices of Ethical Business. This implies that the Top 10 EBP are those which are being practiced by a responsible organisation.

Table 5.16: Bottom 10 Practices of Ethical Business

Bottom 10 - Practice of Ethical Business

Statements	Mean score out of 5
Q10. There is a specially designated Ethics officer	2.93
Q5. It has a significant minority representation across the employees level	3.09

Statements	Mean score out of 5
Q4. It volunteers employee hours towards social projects	3.29
Q11. Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	3.29
Q12. It enforces Code of conduct for outsourced companies	3.55
Q1. The organisation spends a significant percentage of the profit on social development activities	3.57
Q14. Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)	3.59
Q22. It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators	3.63
Q6. It has a fair level of Women representation on the companies roll	3.68
Q9. It enforces ethics training across its employees	3.76

The above table shows the Bottom 10 Practice of Ethical Business. Enforcing ethics training across its employees shows the highest mean score of 3.76 among the bottom list followed by the factor having a fair level of Women representation on the companies roll. The practice that there is a specially designated Ethics officer scored the least mean value of 2.93. These may be needed to be practiced to a higher level to be considered as influential factors in building an ethical organisation culture.

5.3 EXPLORATORY FACTOR ANALYSIS: PRINCIPAL COMPONENT METHOD

Table 5.17: Factor Analysis Result – Principal Component Method

Rotated Component Matrix[a]

	Component					
	factor1	factor2	factor3	factor4	factor5	Communalities
V2. The organisation has a well thought out CSR policy just not charity and donations	.835					0.75
V1. The organisation spends a significant percentage of the profit on social development	.804					0.71

	Component					
	factor1	factor2	factor3	factor4	factor5	Communalities
activities						
V4. It volunteers employee hours towards social projects	.730					0.62
V3. CSR is based on the urgent needs of the communities it works in	.718					0.53
V13. Code for punishment of sexual harassment is clearly designed and communicated to all employees		.748				0.65
V14. Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)		.670				0.60
V12. It enforces Code of conduct for outsourced companies		.558				0.61
V15. There is fair opportunities in promotion and reward systems		.548				0.69
V11. Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees		.547				0.64
V22. It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators		.539				0.51
V9. It enforces ethics training across its employees			.840			0.80
V8. It has a clearly laid out ethics code			.640			0.59
V10. There is a specially designated Ethics officer			.625			0.62
V23. The company provides complete information about their products and services to the customers				.811		0.71
V19. It ensures timely payment of taxes etc. (no fines levied)				.726		0.64
V18. It ensures timely payment to vendors				.537		0.65
V16. The company ensures good and safe working conditions for the employees					.750	0.72
V20. The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)					.747	0.71
Eigen Value	5.87	2.33	1.38	1.21	0.94	
Total variance explained (65.18%)	15.92	15.61	13.06	10.62	9.97	
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 7 iterations.						

The general purpose of factor analysis is to find a method of summarizing the information contained in a number of original variables into a smaller set of new composite dimensions (Factors) with minimum loss of information. That is, Factor

Analysis tries to identify and define the underlying dimensions in the original variables.

Factor analysis usually proceeds with the following steps:

Principal Component Method Factor extraction is used, the number of factors necessary to represent the data and the method of calculating them must be determined. At this step, how well the chosen model fits the data is also ascertained. By default Eigen value is closer to or greater than 1 to extract factors from the given variables. This step helps to determine the method of factor extraction, number of initial factors and the estimates of factors. Here Principal Components Analysis (PCA) is used as estimation method to extract factors. Next, PCA is used to extract the number of factors required to represent the data. For the study, 26variables (statements rating varying from 1 to 5) 1 is strongly disagree and 5 is strongly Agree is considered to measure Ethical Business Practices among the respondents, however only 18 variables are taken for factor analysis, i.e. whichever variables communalities and factor loading is greater than.5are kept and other variables are dropped. The Table 5.17 shows the consolidated result of factor analysis which includes Eigen value, Total variance explained, Rotated component matrix factor loadings and communalities.

Eigen value is used to extract factor from the variables, it is the sum of square of all the variables factor loadings in the given factor. If the values are more than 1 then factors are formed by default method in SPSS Statistics software. In this case one factor Eigen value falls close to 1, that is, factor 5 the Eigen value is.94 however it is also considered as factor.

In a similar pattern, sum of square of a variable across factors are called communalities, as a threshold level communalities should be greater than.5.Last column lists the communalities values. All the variables are greater than.5.

In the row Eigen values are given and below the row titled ‘Total variance explained’, it shows the variance on the new factors that were successively extracted. In that these values are expressed as a percentage of the total variance. As we can see, factor 1 is about 15.92 Percentage of the total variance, factor 2 about 15.61 Percentage, factor 3 is 13.06, factor 4 is 10.62 and factor 5 is 9.97.This contains the cumulative variance extracted is 65.18%.

Varimax Method Rotation is used. It focuses on transforming the factors to make them more interpretable. Since the idea of factor analysis is to identify the factors that meaningfully summarize the sets of closely related variables, the Rotation phase of the factor analysis attempts to transfer initial matrix into one that is easier to interpret. It is called the rotation of the factor matrix.

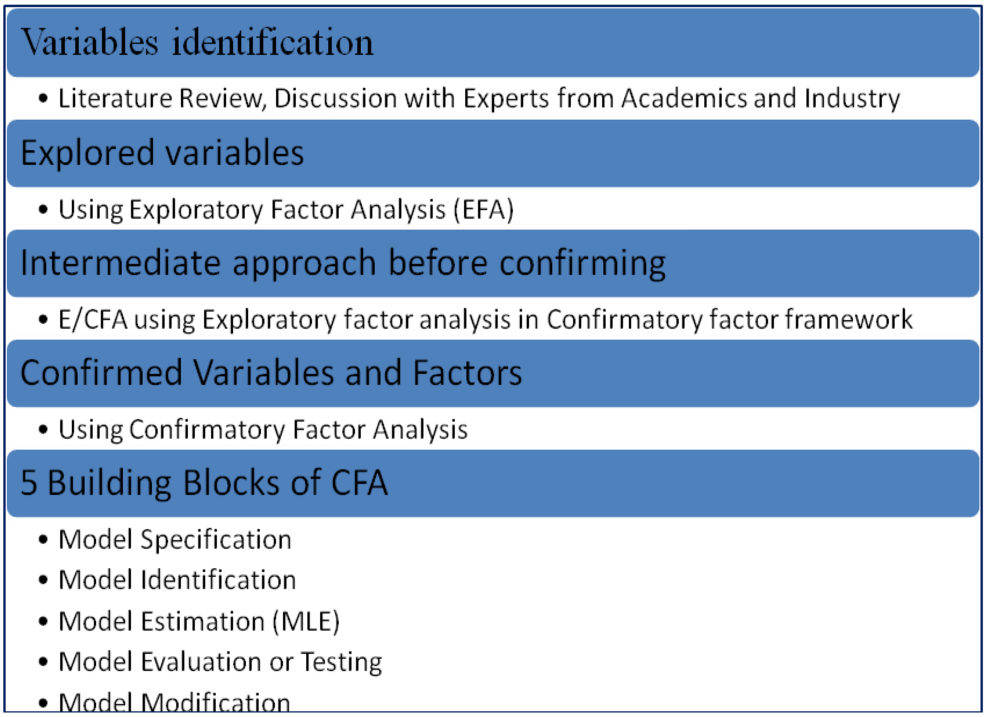
There are several methods available for rotating factor matrix. The one used in this analysis is Varimax Rotation, the most commonly used method, which attempts to minimize the number of variables that have high loadings on a factor. This should enhance the interpretability of the factors. The Rotated Factor Matrix showed Rotated Component Matrix using Varimax rotation is given in Table 5.17, where each factor identifies itself with a few set of variables.

Summary

Thus the 18variables in the data were reduced to 5 factor models and each factor may be identified and named with the corresponding variables which is shown in Table 5.17 Since further analysis will be done the factors are not named at present. They are factor 1: factor 2: factor 3: factor 4 and factor 5.

5.4 EXPLORATORY FACTOR ANALYSIS IN CONFIRMATORY FACTOR ANALYSIS FRAMEWORK (E/CFA)

Figure 5.5: Methodology to Measure Ethical Business Practices



One of the objectives of the study is measuring and identifying the variables for the constructs Ethical Business Practices. By using Exploratory Factor Analysis, variables are identified for each factor; in turn each factor measures the constructs called Ethical Business Practices. However the identified variables of each factor have to be confirmed by using confirmatory factor analysis. Since there is great difference in Exploratory Factor Analysis (EFA) and Confirmatory factor analysis (CFA). The former one allows variables for cross loading but latter one will not allow cross loadings, the commonly used estimation method in EFA is principal component analysis (PCA) but in CFA, most of the time Maximum likelihood estimation (MLE) method is used. In nut shell, extending the constructs directly from EFA to CFA may not fetch expected results. Hence procedure of EFA within CFA framework (E/CFA) is used [Brown, 2006] as intermediate approach before getting into CFA. This intermediary approach employs EFA based on MLE estimation method rather than PCA as estimation. By default CFA is estimated by using MLE method. MLE method provides fit index unlike PCA. In other words, EFA does not involve hypothesis testing process but CFA has testing of hypothesis. Since the study used (E/CFA) approach the hypothesis is formulated and it is given below:

Null Hypothesis: characteristics of Model and characteristics of Data are same, it fitwell.

Alternative Hypothesis: characteristics of Model and characteristics of Data are different, it does not fit well.

MLE estimation is done to know the goodness of fit test, the given below output is obtained after various iteration procedure.

Chi square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. Thus it is used when we want to know about the goodness of fit between the observed and the expected to understand whether the difference were a result of chance or due to other factors.

Table 5.18: Goodness of Fit Test

Goodness-of-fit Test		
Chi-Square	Df	Sig.
27.677	33	.729

Table 5.18, showed E/CFA procedure output which includes the Goodness of fit test:

Chi Square value is 27.67, DF is 33 and sig. value is.729.The chi square test is always testing what scientists call the null hypothesis which states that there is no significant difference between the expected and the observed result. The usual ***reject-support context*** for statistical test is where it is the rejection of the null hypothesis that supports the researcher's theory. However MLE methods, deals with ***accept-support*** context where the null hypothesis represents the researcher's beliefs, or in this case where the model is consistent with the data matrix (Kline, 2011). Hence lower the chi square value, better the model, sig. value is >.05, i.e. .729, test cannot reject null hypothesis, In other words, test showed the model is fit for the data.

Table 5.19: Factor Analysis Result – Rotated Factor Matrix

Rotated Factor Matrix[a]				**Communalities**
	Factor			
	Factor 1	**Factor 2**	**Factor 3**	
V13. Code for punishment of sexual harassment is clearly designed and communicated to all employees	.707			0.519
V11. Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	.693			0.50
V15. There is fair opportunities in promotion and reward systems	.691			0.574
V12. It enforces Code of conduct for outsourced companies	.634			0.451
V14. Company is a member of associations which deals with ethics, corporate	.567			0.419

Rotated Factor Matrix[a]				Communalities
	Factor			
	Factor 1	Factor 2	Factor 3	
governance even though it is not mandatory (e.g. global compact, transparency international, etc)				
V2. The organisation has a well thought out CSR policy just not charity and donations		.830		0.701
V1. The organisation spends a significant percentage of the profit on social development activities		.808		0.678
V4. It volunteers employee hours towards social projects		.620		0.419
V3. CSR is based on the urgent needs of the communities it works in		.597		0.364
V23. The company provides complete information about their products and services to the customers			.839	0.73
V24. It maintains customer information confidential			.758	0.614
V25. Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)			.586	0.423
Eigen Value	3.965	2.279	1.458	
Total Variance Explained (53.26%)	19.77	18.46	15.03	
a. Extraction Method: Maximum Likelihood. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 5 iterations.				

Table 5.19 showed the output of E/CFA by using MLE as extraction methods.MLE is very sensitive towards small sample and extreme values. It has to follow normality of variables in the model. So based on this, 6 more variables were removed, at last, 12 variables are considered for E\CFA procedure. Totally 3 factors are extracted from 12 variables. Eigen value kept greater than 1 for all the three factors, total variance explained are 53.26% and communalities kept close to.5 for all the variables. Factor loadings of all the variables are more than.5.

5.5 CONFIRMATORY FACTOR ANALYSIS: MODEL 1 – THREE FACTORS MODEL

The purpose of CFA is to identify latent factors accounting for the variation and co variation among set of indicators or variables [Brown, 2006]. EFA is sort of exploratory procedure but CFA is confirmatory procedure. All aspects of the factor model are prescribed i.e. the number of factors, the pattern of indicators-factor loadings and their relations. CFA does not allow cross loadings of variables subsequently, factor rotation does not apply to CFA. This is because the identification restrictions associated with CFA are achieved in part by fixing most or all indicator cross loadings to zero. Hence, specified indicators to load on just one factor. CFA is a part of Structural Equation Model (SEM). It has to follow five basic steps or building blocks. They are Model Specification, Model Identification, Model Estimation, Model Evaluation or Testing and Model Modification [Schumacker, 2004]. CFA attempts to reproduce the observed relationships among input indicators with fewer parameter estimates than EFA [Brown, 2006].Based on the output of E/CFA procedure, 12 variables are taken loaded in the three factors. First step of Model specification in which three factors for CFA procedure test is proposed (refer Figure 5.6).

Model Specification: The tentative model is given with identified indicators. The diagram contains variables: both endogenous (dependent) and exogenous variables (independent), directly observed indicators are called variables which are shown in square or rectangles boxes, totally 12 variables and unobserved variables are called latent variables which are shown in circles, totally 15 variables, (3 factors and 12 error) double headed arrow is used for indicating covariance (in the unstandardized solution) or correlation (in the standardized solution) between or among latent variables, single headed arrow is used to indicate hypothesized directional effects one variable on another or direct effects. All CFA Models contains factor loadings, unique variances and factor variances. Factor loadings (λ_V) are the regression slopes for predicting the indicators from the latent factor. Unique variance (δ) is simply called error variance which is not accounted by the latent factors. Factor variance (ϕ) expressed the sample variability or dispersion of the factor in terms of unstandardized solution, correlation in terms of standardized one. Latent variables or Factors are exogenous variables (ξ).The variables name and number of both exogenous and endogenous shown in the table 5.20.

Figure 5.6: Model Specified

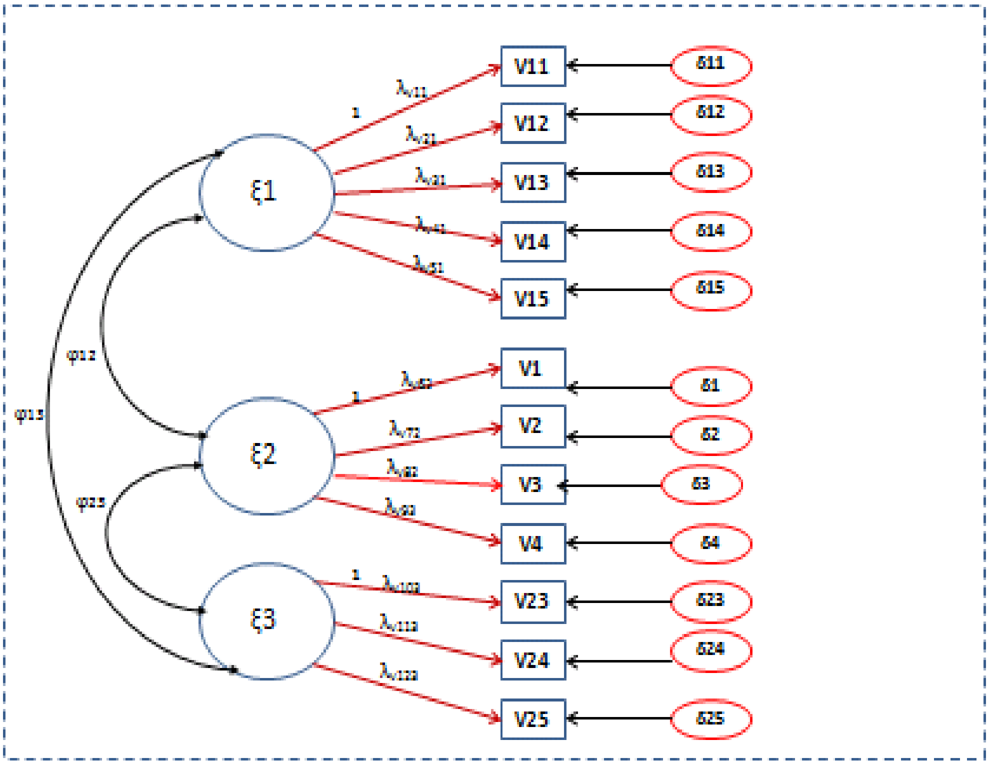


Table 5.20: Variable Summary in the Model

Observed, endogenous variables	
V1 –	The organisation spends a significant percentage of the profit on social development activities
V2 –	The organisation has a well thought out CSR policy just not charity and donations
V3 –	CSR is based on the urgent needs of the communities it works in
V4 –	It volunteers employee hours towards social projects
V11 –	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees
V12 –	It enforces Code of conduct for outsourced companies
V13 –	Code for punishment of sexual harassment is clearly designed and communicated to all employees
V14 –	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g.– global compact, transparency international, etc)
V15 –	There is fair opportunities in promotion and reward systems
V23 –	The company provides complete information about their products and services to the customers
V24 –	It maintains customer information confidential
V25 –	Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)

Unobserved, exogenous variables

Factor1 - Factor 1

e11 – error of V11

e12 - error of V12

e13 - error of V13

e14 - error of V14

e15 - error of V15

Factor 2 - Factor 2

e1 - error of V1

e2 - error of V2

e3 – error of V3

e4 - error of V4

Factor 3 – Factor 3

e23 - error of V23

e24 - error of V24

e25 - error of V25

Table 5.21: Variable Summary

Number of variables in the model:	27
Number of observed variables:	12
Number of unobserved variables:	15
ber of exogenous variables:	15
Number of endogenous variables:	12

5.5.1 Model Identification

After specifying the confirmatory factor model, the next thing is, model identification, it is to check whether the sample data contained in the sample variance-covariance matrix (symbolized as *S),* and the theoretical model implied by the population variance-covariance matrix (symbolized ∑), can be matched or similar. In other words, estimation should minimize the differences between these two matrix summaries (S and ∑).In model some parameters are fixed (12 variables) and others are free. Assessing the ***Order Condition*** is the first step to determine identification.

The formula to calculate Order condition is equal to P (P+1) /2, P is the number of variables in the sample variance-covariance matrix. Here P=12, by substituting the value 12 in the place of P the Order condition is 78.The number of values is S, 78, is greater than the number of free parameter, 27.The degrees of freedom (DF) is difference between S - ∑ is 51, (78-27) as per Order condition the model is over identified because there are more values in S than parameters to be estimated. If S=∑ model is just identified and if S < ∑, model is under identified. To proceed to the next step of model estimation, the model should be Just or over identified. Hence confirmatory factor model is identified. The following table showed the calculation part of DF.

Table 5.22: Computation of Order of Condition

Computation of degrees of freedom (Default model)	
Number of distinct sample moments:	78
Number of distinct parameters to be estimated:	27
Degrees of freedom (78 - 27):	51

5.5.2 Model Estimation

This step has more statistical aspects in the procedure, parameters can be estimated by using different estimation procedures, such as Maximum Likelihood (ML), generalized least squares (GLS), and unweighted least squares (ULS). In this CFA model, the default method of Maximum Likelihood method for estimating the model has been followed.

Model Evaluation or Testing

CFA model can be evaluated on basis of three major aspects (Brown, 2006)

1. Overall goodness of fit
2. The presence or absence of localized areas of strain in the solution and
3. The interpretability, size and statistical significance of the model’s parameter estimates.

General Goodness of Fit

Chi square is close to zero is perfect model. In SEM, P value followed accept hypothesis unlike reject hypothesis of conventional statistics such as anova and regression etc. Here hypothesis formulation is as follows:

Ho - Null Hypothesis: Ethical Business practices, as a construct, consists of distinguishable dimensions

Ha – Alternative Hypothesis: Ethical Business practices, does not as a construct, consist of distinguishable dimensions

Absolute Fit measures: It provided the most basic assessment of how well a researcher's theory fits the sample data. They do not explicitly compare the goodness of fit (GOF) of a specified model to any other model. The limitation of general goodness of fit can be overcome with help of absolute fit measures which includes RMR, RMSEA and SRMR.

RMR is Root Mean Residuals, the average of the residuals between individual observed and estimated covariance and variance terms, if the value is <.10 the model is better. All the models RMR is <.10, which shows model is better.

RMSEA is Root Mean Square Error of Approximation, which measures attempts to correct for tendency of the chi square, <.06 of RMSEA indicate the model is absolutely fit.

SRMR is Standardized Root Mean Residual, It is standardized value of RMSR and thus is more useful for comparing fit across models, <.05 indicate model is very fit, like RMSEA.

Incremental Fit Indices It assesses how well specified model fits relative to some alternative baseline model. The most common baseline model is referred to as a null model, all observed variables are uncorrelated.

CFI is Comparative Fit Index, CFI is better version of than other Incremental fit indices, when value is >.95, the model is highly fit.

TLI is Tucker Lewis Index, mathematical comparison of a specified theoretical measurement model and baseline null model, when TLI exceed 1, the model is very fit

Result of the Models

1. Overall goodness of fit: Overall goodness of fit indices showed that the three factor model does fit these data well:X^2 (51) = 56.06, p=.291, SRMR=.056, RMSEA =.029 (90% CI=.00 -.068), TLI=.986, CFI=.989, GFI=.929 [Browne, 1993]

   Since P value is.291 which is greater than.05, null hypothesis, cannot be rejected, hence null hypothesis is accepted. The study established the Ethical business practices as distinguishable dimensions.

2. Localized area of strains: The above overall goodness of fit indices (SRMR, RMSEA, TLI, CFI) indicated global summary of the difference between the sample and model-implied matrices, despite these overall good fit, there is chance for misfit that can be identified by using two methods (i) Residual matrix and (ii) Modification Index. These two methods take care of each indicator variance and covariance. The Sample Variance-Covariance Matrix (S), Model Implied Variance-Covariance Matrix (∑) Residual Matrix (S-∑) and Standardized Residual covariance matrices. Standardized Residuals indicated all variables values are less than 1.96 which indicates that all the indicators are fitted well. The other index is Modification index which is discussed in the below section.

   The interpretability part will be covered in the last section.

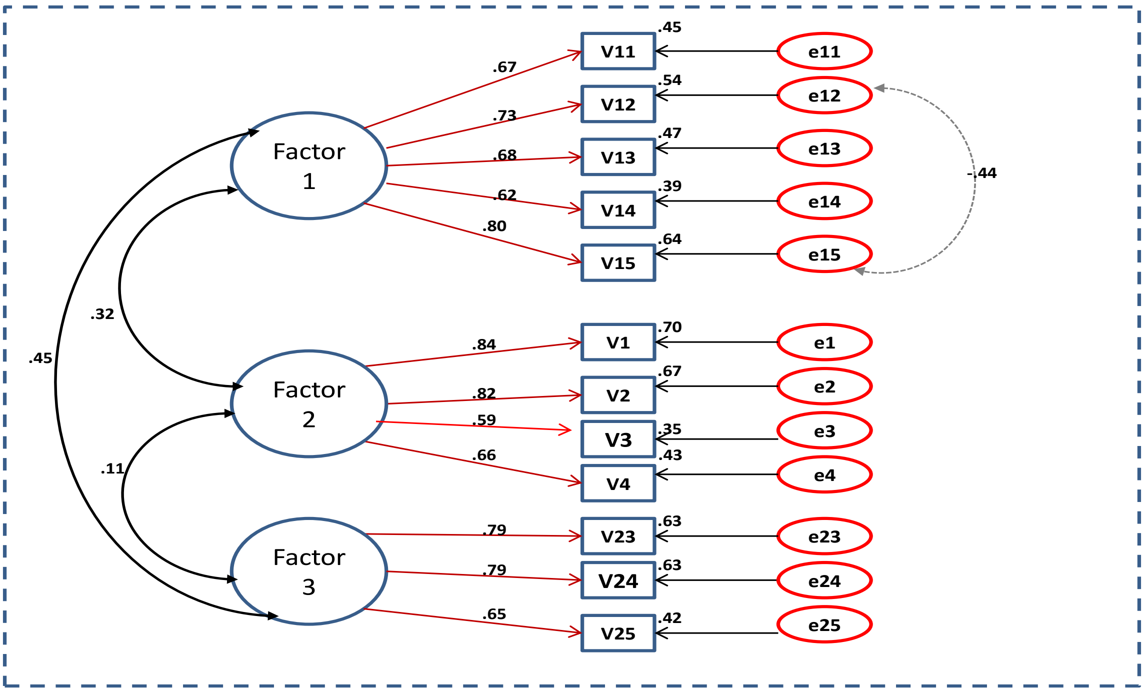
5.5.3 Model Modification

The last step in CFA Model is to consider changes to a specified model that has poor model fit indices, that is, model modification, which reflects an approximation of how much the overall model X^2 would decrease if the fixed or constrained parameter was freely estimated, good-fitting model should also produce modification indices (MI) that are small in magnitude, that is, 3.84 or 4 rounded off. MI showed the 4.766 which existed between e12 and e15, since value is greater than 4 there is chance for improving the model by modifying it.

Result Discussion

After re-specifying the model, refer figure 5.6, there is improvement in both overall goodness fit and localized area of strain which is showed in the given below table.

Figure 5.7: Model Modified



The factors are named Factor 1: Company Ethical Policy Oriented, Factor 2: Society Oriented, Factor 3: Customer Oriented. The interpretation and discussion for both the original Model and respecified model are given below.

Table 5.23: Factor Loadings of Original and Respecified Model

Factor loadings

Standardized Regression Weights:

	Original Model			**Respecified Model**		
Indicators	**Estimate**	**Critical Ratio (unstandar-dized)**	**P Label**	**Estimate**	**Critical Ratio (unstandar-dized)**	**P Label**
v11<--- Factor 1	0.682			0.67		
v12<--- Factor 1	0.665	6.113	***	0.735	6.314	***
v13<--- Factor 1	0.701	6.384	***	0.683	6.537	***
v14<--- Factor 1	0.655	6.041	***	0.623	6.029	***
v15<--- Factor 1	**0.738**	6.635	***	**0.798**	6.777	***
v1<--- Factor 2	**0.836**			**0.837**		
v2<--- Factor 2	0.817	8.626	***	0.818	8.62	***
v3<--- Factor 2	0.592	6.307	***	0.592	6.302	***
v4<--- Factor 2	0.657			0.655	7.063	***
v23<--- Factor 3	**0.796**			**0.793**		
v24<--- Factor 3	0.790	6.928	***	0.792	6.976	***
v25<--- Factor 3	0.649	6.299	***	0.65	6.323	***

*** sig at.001 level

Factor loadings are shown for both the models, totally 12 variables and 3 factors are there, for original model, the estimate value is standardized regression weight, when factor 1 is increased by 1 variance, that led to increase of V11 as.682 variance, in similar pattern, for respecified model is, when factor 1 is increased 1 variance that lead to increase in V11 as.67 variance. In both models, factor wise highest variance is highlighted which includes.798 of v15 (There is fair opportunities in promotion and reward systems) of Factor 1,.837 of V1 (The organisation spends a significant percentage of the profit on social development activities) of factor2 and.793 if V23 (The company provides complete information about products and services to the customers) factor 3.Critical ratio is similar to t values in conventional statistics which is calculated by regression weights divided by standard error, the value 1.96 or more than 2 considered as significant. All the 12 variables are significant at <.001 level, which showed the relation between factors and their variables concerned are statistically significant.

Table 5.24: Correlation of Original and Respecified Model

Correlation			Covariance			
	Original Model	Respecified Model	Original Model	Respecified Model		
			Estimates	Estimates	CR	P Label
Factor 1<-->Factor 2	0.349	0.318	.303	.272	2.71	**
Factor 2<-->Factor 3	0.111	0.11	.058	.057	.98	NS
Factor 1<-->Factor 3	**0.445**	**0.453**	**.218**	**.217**	**3.43**	*****
e12<-->e15		-0.443		.243	-2.59	

*** <.001, **<.01, NS-non significant

This output revealed the relation among the factors by using correlation, the values are standardized score, which never go more than 1. CFA used three factor models so there are 3 relations that are established among the factors. Factor 1: Company Ethical Policy Oriented and Factor 3: Customer Oriented has highest relation, which is .443. Covariance estimates are provided to know the unstandardized score. CR for Factor 1: Company Ethical Policy Oriented and Factor 2: Society Oriented is sig. at 1% level, Factor 2: Society Oriented and Factor 3: Customer Oriented has CR value less than 2 so it is not significant. Factor 1: Company Ethical Policy Oriented and Factor 3: Customer Oriented is significant at .001 level. In respecified model there is negative correlation between error of v12 and error of v15.From this output, it is understood that in the attempt to measure ethical business practices, the Factor 1: Company Ethical Policy Oriented and Factor 3: Customer Oriented has high level of relation while compared with other combination of factors.

Table 5.25: Squared Multiple Correlation

	Original Model		Respecified Model	
Company Ethical Policy Oriented	Squared Multiple Correlation	Error Variance	Squared Multiple Correlation	Error Variance
v15 -There is fair opportunities in promotion and reward systems	**0.545**	0.455	**0.637**	0.363
v14 –Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory	0.43	0.57	0.388	0.612
v13 -Code for punishment of sexual harassment is clearly designed and communicated to all employees	0.492	0.508	0.466	0.534
v12 -It enforces Code of conduct for outsourced companies	0.442	0.558	0.539	0.461
v11 -Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	0.465	0.535	0.448	0.552

	Original Model		Respecified Model	
Company Ethical Policy Oriented	Squared Multiple Correlation	Error Variance	Squared Multiple Correlation	Error Variance
Society Oriented				
v4 –It volunteers employee hours towards social projects	0.432	0.568	0.43	0.57
v3 -CSR is based on the urgent needs of the communities it works in	0.351	0.649	0.35	0.65
v2 -The organisation has a well thought out CSR policy just not charity and donations	0.668	0.332	0.668	0.332
v1 -The organisation spends a significant percentage of the profit on social development activities	**0.698**	0.302	**0.7**	0.3
Customer Oriented				
v25 -Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	0.421	0.579	0.423	0.577
v24 -It maintains customer information confidential	0.625	0.375	0.627	0.373
v23 -The company provides complete information about their products and services to the customers	**0.633**	0.367	**0.629**	0.371

Table 5.25 showed the outcome of the squared multiple correlation or R Square of each variables on both model. In factor 1, v15 - There is fair opportunities in promotion and reward systems have R square of .545 or 54.5%. TheR Square values for all the 12 variables ranges from .35, v3 -CSR is based on the urgent needs of the communities it works to .70, v1 -The organisation spends a significant percentage of the profit on social development activities. In factor 2, v1 - The organisation spends a significant percentage of the profit on social development activities, R Square is .637 or 63.7%, In factor 3, v1 - The organisation spends a significant percentage of the profit on social development activities has highest R square, the value is .70 or 70% and 1 -.698 is called error variance, that is .30 or 30%.

Table 5.26: Overall Selected Fit Indices

Over all selected fit indices		
	Original Model	**Respecified Model**
Chi square	**56.06**	**48.09**
Df	51	50.00
P value	0.291	0.55
SRMR	0.056	0.05
RMSEA	0.029	0.00
GFI	0.929	0.94
CFI	0.989	1.00
TLI	0.986	1.01

Though Overall selected fit indices are discussed earlier, the output of respecified model showed much better in the entire index compared with original model. Especially RMSEA is almost close to .00, GFI, CFI and TLI is moved to 1.

Summary

One of the objectives of the study was to measure the ethical business practices in corporate India. With help of literature review, pilot study and experience of other scholars and corporate members, the researcher identified 26 variables. All these variables are exploratory in nature so exploratory factor analysis was done by using PCA extraction, in order to confirm these extracted variables from the factor analysis, E/CFA approach is adopted, that is, extracting variables in EFA by using ML estimation, then the number of variables came to 12 and factors were 3. In order to confirm these, factor structure, loadings relation CFA was done. In CFA 5 step or building block followed rigorously to measure the construct called Ethical Business

Practices in Corporate India. The three Factors namely: factor 1: Company Ethical Policy oriented, factor 2: Society oriented and factor 3: Customer oriented.

5.6 MEASUREMENT ERROR: RELIABILITY AND VALIDITY ON ETHICAL BUSINESS PRACTICES

Table 5.27: Reliability Test of Ethical Business Practices Measures

Ethical Business Practices Measures			
S.No	**Factor 1: Company Ethical Policy Oriented**	**No of items**	**Cronbach alpha**
1	v15 -There is fair opportunities in promotion and reward systems	**5**	**0.814**
2	v14 –Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory.		
3	v13 -Code for punishment of sexual harassment is clearly designed and communicated to all employees		
4	v12 -It enforces Code of conduct for outsourced companies		
5	v11 -Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees		
	Factor 2: Society Oriented		
6	v4 –It volunteers employee hours towards social projects	**4**	**.811**
7	v3 -CSR is based on the urgent needs of the communities it works in		
8	v2 -The organisation has a well thought out CSR policy just not charity and donations		
9	v1 -The organisation spends a significant percentage of the profit on social development activities		
	Factor 3: Customer Oriented		
10	v25 -Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	**3**	**.774**
11	v24 -It maintains customer information confidential		
12	v23 -The company provides complete information about products and services to the customers		
	Ethical Business Practices Measures	**12**	**.811**
	Ethical Business Practices Split 1	**6**	**.787**
	Ethical Business Practices Split 2	**6**	**.628**

Both measurement error such as reliability and validity is taken care of. The former has taken care of systematic error and latter has taken care of unsystematic error. The table 5.27 showed the output of reliability test for measuring the ethical business practices. After confirming the measures with help of confirmatory factor analysis, reliability test is done, to know the consistency of the measures. Cronbach alpha and Guttman split half test is conducted and the output showed for the total items of 12, the cronbach alpha is .811. In terms of factor wise, Factor 1: Company Ethical Policy Oriented is .814, Factor 2: Society Oriented is .811 and Factor 3: Customer Oriented is .774 in all the aspects cronbach alpha is >.6 which is quite good [Nunally, 1998]. Apart from Cronbach alpha test, Guttman split half test was done which split total 12 items into two. Split 1 alpha is .787 and Split 2 alpha is .628. Hence the measure is reliable in both Cronbach alpha and Guttman split half test.

Validity

In order to measure the validity of the measures for CFA result, converged validity is tested, which is the extent to which a set of measured variables actually represent the theoretical latent construct they are designed to measure. It is made up of four components: convergent validity, discriminant validity, nomological validity and face validity. Before getting into data collection, the Questionnaire was shown to both academicians and industry experts to check for face validity; the experts identified the variables of the measures of the ethical practices of the corporates. Nomological Validity is tested by examining whether the correlation between the constructs in the measurement model make sense. The construct correlations are used to assess, these constructs must be positively related based on EBP, since these three construct model all correlations are positive and significant, hence measures attained nomological validity.

Table 5.28: Correlation and Nomological Validity

	Estimate	p value	Signs
Company ethical Policy <--> Societal oriented	0.318	***	positive
Societal oriented <--> Customer Oriented	0.11	NS	positive
Company ethical <--> Customer Oriented	0.453	***	positive

***<.001 sig level

The most important validity is Convergent validity, which indicators of a specific construct 'converge' or share a high proportion of variance in common. Convergent validity is verified with help of three things such as 1. Factor loadings of the variables in the given measures, 2. Average variance extracted (AVE) and 3. Construct reliability.

Table 5.29: Convergent Validity

Standardized Regression Weights	Factor loadings			variance extracted	construct reliability
	Company ethical policy	Societal oriented	Customer oriented		
v11	0.67				
v12	0.735				
v13	0.683				
v14	0.623				

Standardized Regression Weights	Factor loadings			variance extracted	construct reliability
	Company ethical policy	Societal oriented	Customer oriented		
v15	0.798			49%	0.830
v1		0.837			
v2		0.818			
v3		0.592		54%	.820
v4		0.655			
v23			0.793		
v24			0.792	56%	.791
Threshold value	>.5	>.5	>.5	> 50%	>.7

Since all variables of the given dimensions factor loadings are greater than.5, average variance extracted is almost 50% for all the three dimensions and construct reliability score is >.7 for all three constructs, these measures highly satisfy the convergent validity [Hair, 2008]. The last validity is discriminant validity. It is the extent to which a construct is truly distinct from other constructs

Table 5.30: Discriminant Validity

Constructs	inter construct (IC) correlation	SQR. IC	AVE (>.5)	Discriminant Validity
Company ethical Policy <--> Societal oriented	0.318	0.10	0.49	Moderate
Societal oriented <--> Customer Oriented	0.11	0.01	0.54	High
Company ethical <--> Customer Oriented	0.453	0.21	0.56	High

All variance extracted (AVE) estimates in the above table are larger than the corresponding squared interconstruct correlation estimates (SQR IC). This means the indicators have more in common with the construct they are associated with than they do with other constructs. Therefore, the three construct CFA model demonstrates discriminant validity

Table 5.31: One Way ANOVA

Descriptive and one way ANOVA

		N	Mean	Std. Deviation	F	Sig.
Company Ethical Policy	1. Manufacturing	58.00	3.40	0.90	7.86	0.00*
	2. IT / ITES	16.00	4.08	0.57		
	3. Services	46.00	3.97	0.78		
	Total	120.00	3.71	0.87		
V11. Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees	1. Manufacturing	58	2.95	1.248	3.961	.022*
	2. IT / ITES	16	3.63	1.025		
	3. Services	46	3.61	1.422		
	Total	120	3.29	1.325		
V12. It enforces Code of conduct for outsourced companies	1. Manufacturing	58	3.26	1.178	3.792	.025*
	2. IT / ITES	16	4.00	.894		
	3. Services	46	3.76	1.214		
	Total	120	3.55	1.187		
V13. Code for punishment of sexual harassment is clearly designed and communicated to all employees	1. Manufacturing	58	3.97	1.042	4.48	0.01*
	2. IT / ITES	16	4.56	.727		
	3. Services	46	4.43	.834		
	Total	120	4.23	.957		
V14. Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact,	1. Manufacturing	58	3.36	1.119	2.571	.081
	2. IT / ITES	16	3.88	.806		
	3. Services	46	3.78	1.114		

		N	Mean	Std. Deviation	F	Sig.
transparency international, etc)	Total	120	3.59	1.096		
V15. There is fair opportunities in promotion and reward systems	1. Manufacturing	58	3.48	1.188	7.875	.001*
	2. IT / ITES	16	4.31	.704		
	3. Services	46	4.24	1.015		
	Total	120	3.88	1.132		
Society oriented	**1. Manufacturing**	**58.00**	**3.62**	**0.90**	**0.64**	**0.53**
	2. IT / ITES	**16.00**	**3.88**	**0.49**		
	3. Services	**46.00**	**3.60**	**0.92**		
	Total	**120.00**	**3.65**	**0.87**		
V1. The organisation spends a significant percentage of the profit on social development activities	1. Manufacturing	58	3.52	1.047	.103	.902
	2. IT / ITES	16	3.63	.957		
	3. Services	46	3.61	1.341		
	Total	120	3.57	1.150		
V2. The organisation has a well thought out CSR policy just not charity and donations	1. Manufacturing	58	3.79	1.022	1.413	.248
	2. IT / ITES	16	4.19	.655		
	3. Services	46	4.02	.931		
	Total	120	3.93	.950		
V3. CSR is based on the urgent needs of the communities it works in	1. Manufacturing	58	3.78	.937	.361	.697
	2. IT / ITES	16	4.00	.632		
	3. Services	46	3.76	1.196		
	Total	120	3.80	1.009		
V4. It volunteers employee hours towards social projects	1. Manufacturing	58	3.40	1.184	2.313	.103
	2. IT / ITES	16	3.69	.793		
	3. Services	46	3.02	1.291		
	Total	120	3.29	1.198		
Customer oriented	**1. Manufacturing**	**58**	**4.2644**	**.74079**	**4.323**	**.015**
	2. IT / ITES	**16**	**4.5833**	**.44721**		
	3. Services	**46**	**4.6014**	**.48493**		
	Total	**120**	**4.4361**	**.63628**		
V23. The company provides complete information about their products and	1. Manufacturing	58	4.40	.815	3.346	.039*
	2. IT / ITES	16	4.56	.512		

		N	Mean	Std. Deviation	F	Sig.
services to the customers	3. Services	46	4.74	.491		
	Total	120	4.55	.684		
V24. It maintains customer information confidential	1. Manufacturing	58	4.28	.812	3.717	.027*
	2. IT / ITES	16	4.69	.479		
	3. Services	46	4.61	.649		
	Total	120	4.46	.732		
V25. Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	1. Manufacturing	58	4.12	1.010	2.426	.093
	2. IT / ITES	16	4.50	.730		
	3. Services	46	4.46	.690		
	Total	120	4.30	.875		
ETHICAL BUSINESS PRACTICES	**1. Manufacturing**	**58**	**3.69**	**0.60**	**5.818**	**.004**
	2. IT / ITES	**16**	**4.14**	**0.42**		
	3. Services	**46**	**4.00**	**0.58**		
	Total	**120**	**3.87**	**0.59**		

*5% level of significant

Figure 5.8: Graphical Representation of One Way Anova

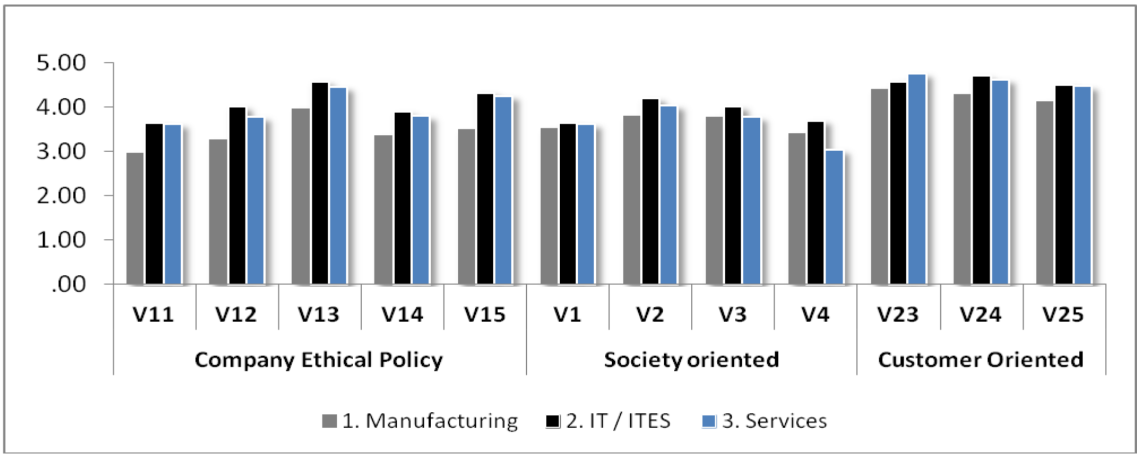
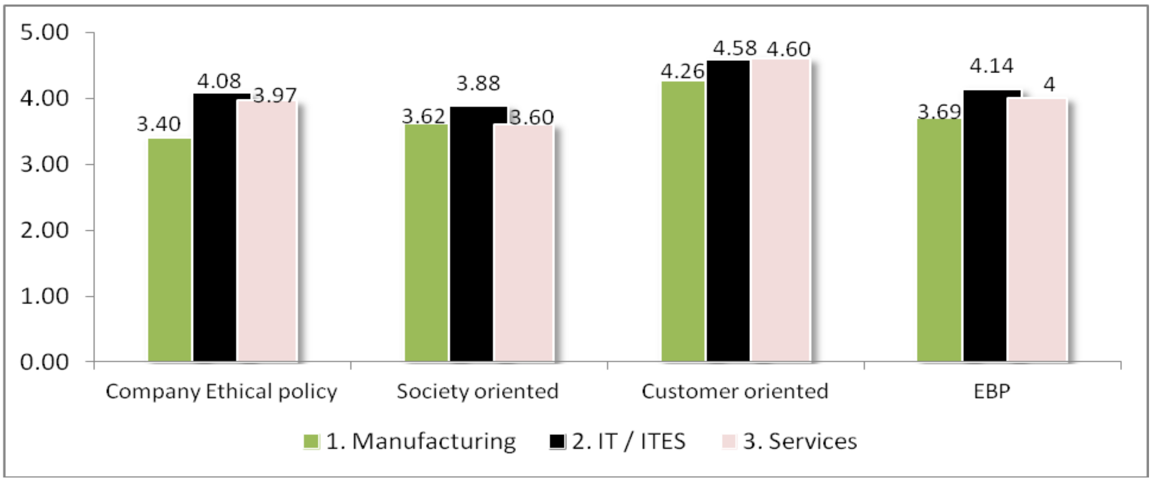


Figure 5.9: Graphical Representation of One Way Anova across Industry Type



Outcome of the confirmatory factor analysis (CFA) is further taken to know the significant difference on the construct and their variables across sectors, to attain this, one way anova is employed. Among the types of sector, IT\ITES has high score compared with other sector in all the variables and also in dimension wise. In the construct company Ethical Policy, V15. There are fair opportunities in promotion and reward systems gained high F value which indicates among the three sectors, this variable had big differences compared to other variables. In the construct of Society oriented, none of the variables had significant difference. Probably all the companies are practicing social oriented ethical practices more or less same.

In the third construct, all the variables are significant except v25. So overall, Ethical Business practices are significantly different from one sector to other. By and large, IT/ITES perceived that Ethical Business practices were practiced to a higher level as compared to other sector of the companies.

5.7 Corporate Financial Performance and Ethical Business Practices

One of the objectives of the study is to find the relation between Corporate Financial Performance (CFP) and Ethical Business Practices (EBP). CFP is calculated based on the key financial indicators such as Earnings per share, Closing Price of share, Sales, Salaries and Wages, Staff welfare, Profit After Tax and Capital Reserves, in similar way for EBP all the 26 items aggregated mean score, data was shown in the table 5.13, further in order to find the relation between CFP and EBP Pearson correlation is employed between CFP 2011 with EBP mean score. This is shown in table 5.33.

Table 5.32: Company wise Financial Performance for the Year 2010-11 and EBP Score

	EPS	CP	*Sales	Salaries & wages	*Staff welfare	PAT	*Capital Reserves	EBP Score
CO1	30.67	334.25	3574220	39162.6	8877.5	74443.2	1977.3	3.81
CO2	20.32	357.5	380158	11162.9	593	77169	51	4.45
CO3	59.54	1653.25	442915.6	21729.9	3480	39573.2	105.2	3.66
CO4	84.4	2342.95		27758.1		39264	2954.7	3.45
CO5	16.37	410.55	15513.3	785.9	53.8	1583.6		4.20
CO6	-10.07	62.9	11017.8	514	17.6	-442.3	198.9	4.05
CO7	29.85	684.55	42532.5	2088.4	172.1	5909.9		4.03
CO8	80.37	2526.95	72444.5	2572.2	181	7751.5		3.80
CO9	5.4	71.7	38619.3	596.3	43.8	8856.1		4.05
CO10	28.01	1232.2	4883.2	311.4	41.9	754.4	2.5	3.86

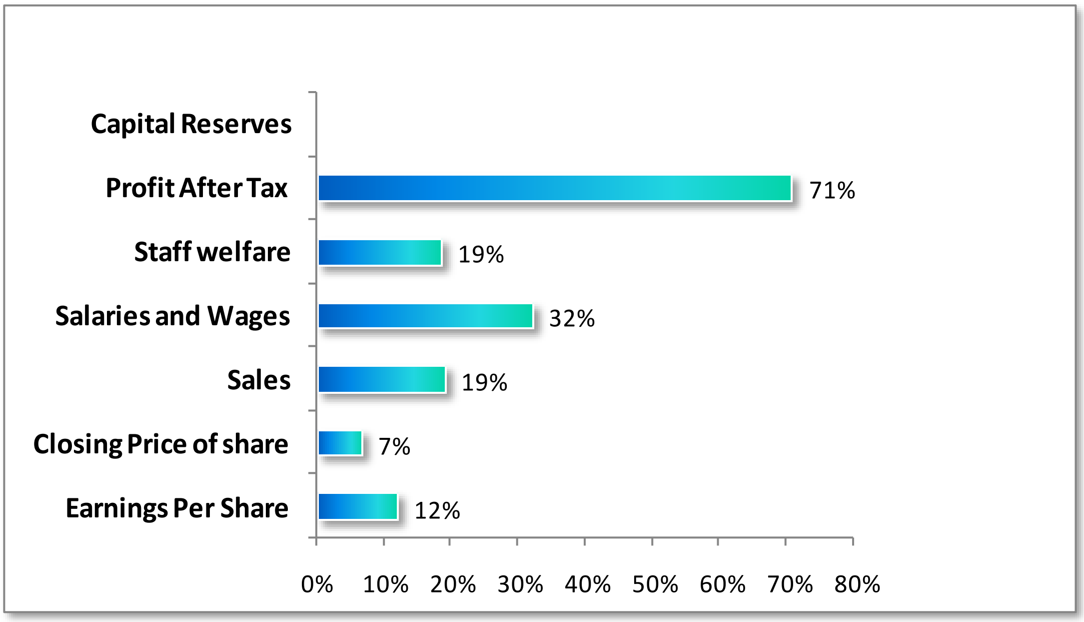
*indicators N= < 10

Table 5.33: Pearson Correlation

Corporate Financial Performance (CFP) and Ethical Business Practices (EBP) Correlation between CFP and EBPS

Sr. No.	Corporate Financial Performance (CFP)	Ethical Business Practices Score (EBPS)	
		Pearson Correlation	Sig. (1-tailed)
1.	Earnings Per Share	.120	.371
2.	Closing Price of share	.065	.430
3.	Sales	.190	.312
4.	Salaries and Wages	.320	.184
5.	Staff welfare	.185	.316
	Profit After Tax	.706	.011*
7.	Capital Reserves	NA	
	* Correlation is significant at the 0.05 level (1-tailed). (N=10)		

Figure 5.10: Graphic Representation of Pearson Correlation Corporate Financial Performance (CFP) and Ethical Business Practices



The relationship in terms of the correlation between Ethical Business Practices and Corporate Financial Performance was studied. The table 5.33 shows relationship between Ethical Business Practices and the key financial attributes. Across the dependent variables computed only Profit after Tax attribute was statistically significant at 5%. .706 relation exists between EBP and PAT.

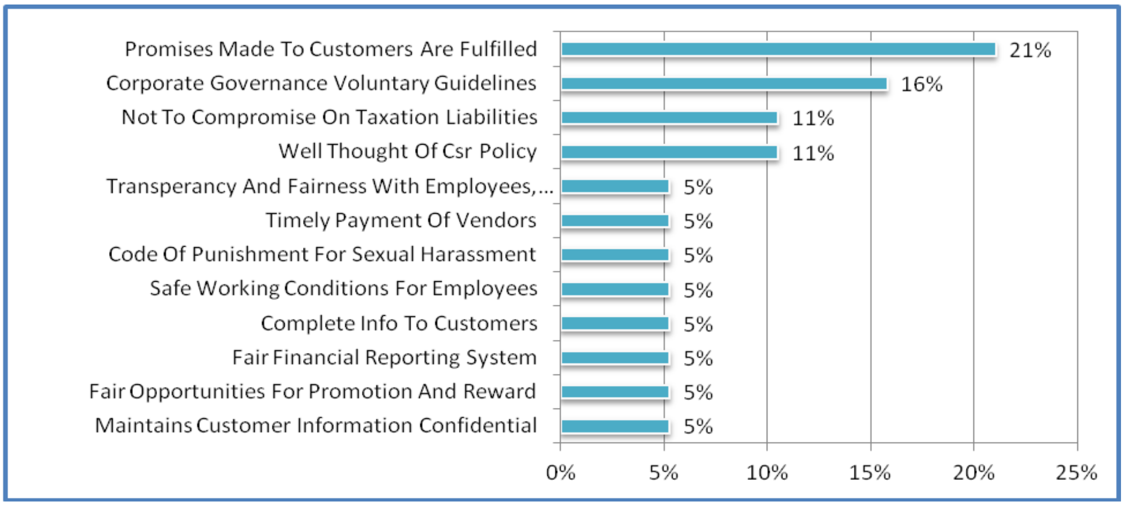
The above tables reflects that .12 relationship exists between Earnings Per Share and Ethical Business Practices Score. The variable Closing Price of share showed a relationship of .06. There is also significant relationship with correlation between Salaries and Wages and Ethical Business Practices Score with the score of .32. Sales and Staff welfare shows a relationship .19 and .18 respectively with Ethical Business Practices Score. Capital Reserves is not reported due to very small sample of scores available i.e. data was not available for all companies.

5.8 QUALITATIVE DATA: FREQUENCY ANALYSIS

Table 5.34: Most Relevant Ethical Practices Selected by Respondents for Organisations to be Considered Ethical

Sr. No.		No. of Responses	Percentage
1.	Maintains Customer Information Confidential	1	5.26%
2.	Fair Opportunities For Promotion And Reward	1	5.26%
3.	Fair Financial Reporting System	1	5.26%
4.	Complete Info To Customers	1	5.26%
5.	Safe Working Conditions For Employees	1	5.26%
6.	Code Of Punishment For Sexual Harassment	1	5.26%
7.	Timely Payment Of Vendors	1	5.26%
8.	Transparency And Fairness With Employees, Vendors And Customers	1	5.26%
9.	Well Thought Of CSR Policy	2	10.53%
10.	Not To Compromise On Taxation Liabilities	2	10.53%
11.	Corporate Governance Voluntary Guidelines	3	15.79%
12.	Promises Made To Customers Are Fulfilled	4	21.05%

Figure 5.11: Graphic Representation of Most Relevant Ethical Practices Selected by Respondents for the Organisation to be Considered Ethical

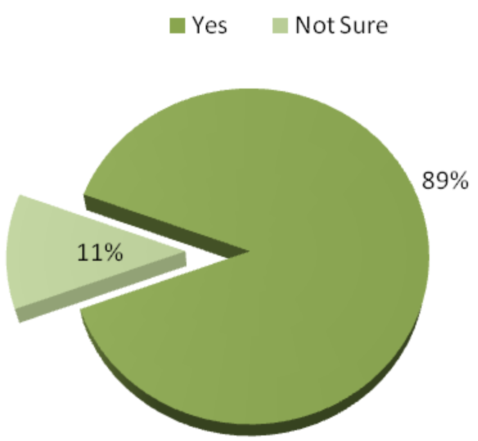


The table 5.34 provides the frequency of attributes of Ethical Practice Most Relevant in the Organisation to be considered an ethical organisation. The results reveal 21% of the respondents feel that Promises made to customers are fulfilled must be considered as Ethical practice. Next, Corporate Governance Voluntary Guidelines showed 16% where the respondents felt this factor must also be considered as Ethical practice. Attributes such as Not to Compromise on Taxation Liabilities and Well Thought of CSR Policy constituted to 11%. The other attributes constituted to about 5% in frequency distribution.

Table 5.35: Do You Think that Ethical Organisations Perform Better?

Sr. No.	Y/N	Frequency	Percentage
1.	Yes	8	88.89
2.	Not Sure	1	11.11
3.	Total	9	100.00

Figure 5.12: Ethical Organisations Perform Better



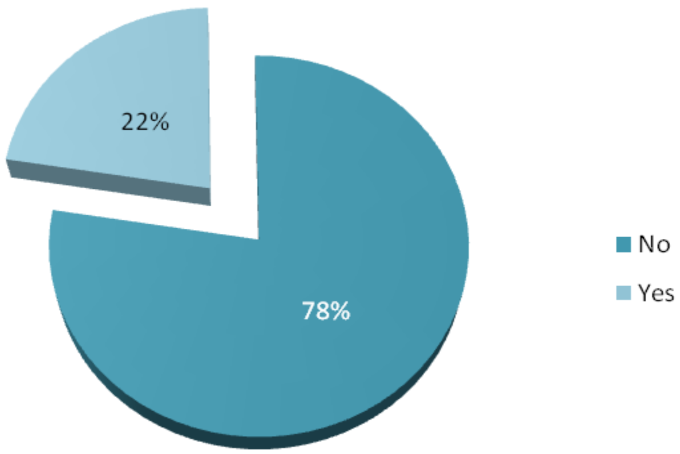
Yes Verbatim:
1. In the long run (though they may have occasional downturn)
2. In the long run ethical organisations will perform far better.
3. Ethics can't be just on paper, it has to be practiced.
Not Sure Verbatim:
1. Particularly in the Indian Context as it prevails

In the study, 89% of the respondents felt ethical organisations would perform better in the long run by practicing ethics. While only 1% that they were not sure particularly in the Indian Context as it prevails.

Table 5.36: Or is it a Cost to the Organisations to be Ethical?

Sr. No.	Y/N	Frequency	Percentage
1.	No	7	77.78
2.	Yes	2	22.22
3.	Total	9	100.00

Figure 5.13: Cost to Organisations to be Ethical



The above chart shows that 78% of the respondents felt it would not be a cost to the organisation to be ethical. The remaining 22% of the respondents felt that it would cost the organisation to be ethical.

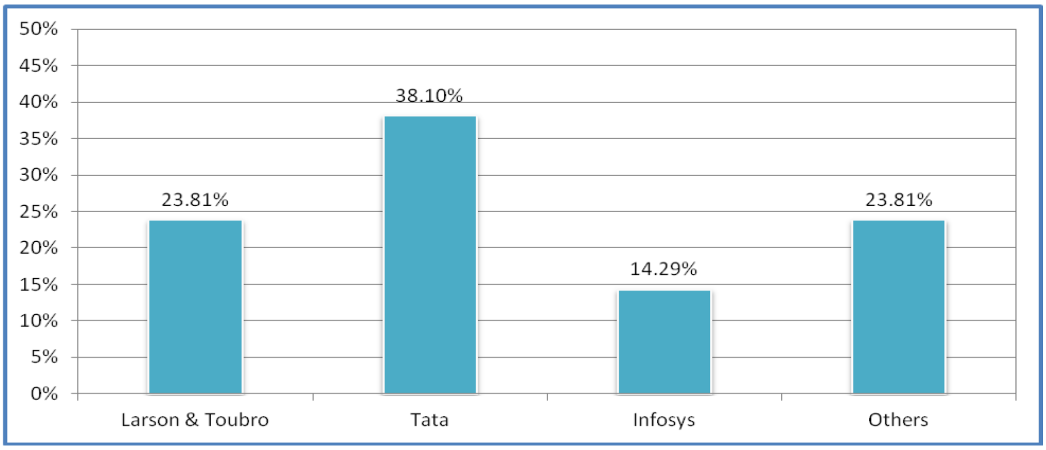
Table 5.37: Ethical Group or Organisation in India

Sr. No.		Frequency	Percentage
1.	Larsen & Toubro	5	23.81
2.	Tata	8	38.10
3.	Infosys	3	14.29
4.	Others	5	23.81
	Total	21	100.00

Other Mentions:

Godrej	1
Asian Paints	1
Siemens	1
AV Birla Group	1
JSW	1

Figure 5.14: Ethical Group or Organisation



The above table shows that a very high percentage distribution of the respondents perceived the Tata group to be ethical constituting to 38%. Next were Larsen & Toubro and Others each constituted to about 23% distribution. A little over 14% of members considered Infosys to be an ethical organisation.

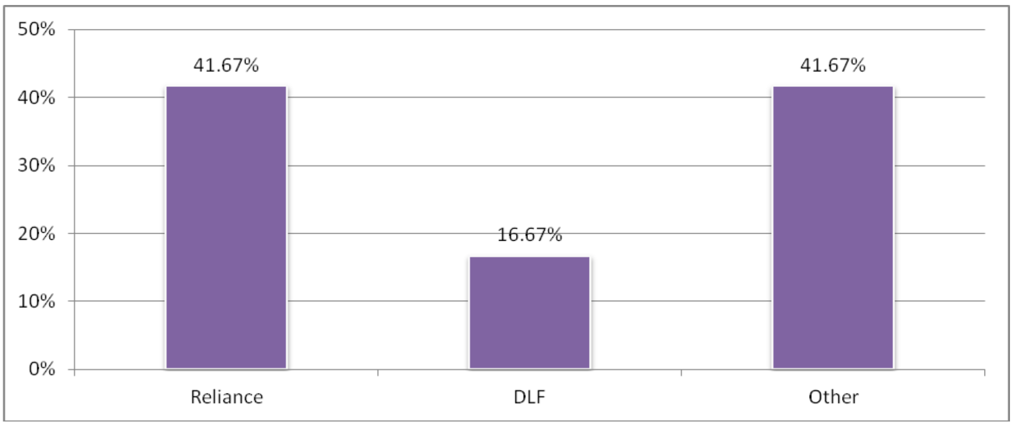
Table 5.38: Organisation According to You Follows Unethical Business Practice

Sr. No.		Frequency	Percentage
1.	Reliance	5	41.67
2.	DFL	2	16.67
3.	Others	5	41.67
	Total	**12**	**100.00**

Other Mentions:

Essar	1
PunjLlyods	1
Unitech	1
Satyam	1

Figure 5.15: Unethical Business Practice

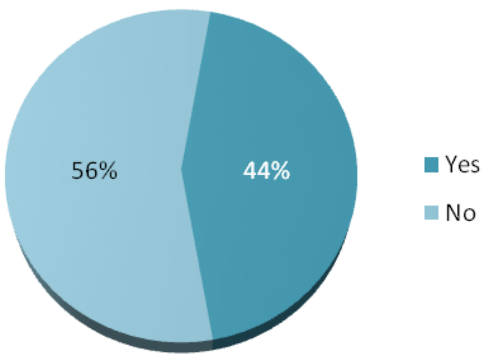


The above table shows that a very high percentage distribution of the respondent perceived Reliance to be unethical constituting to about 41%. Similarly the others (Essar, PunjLlyods, Unitech, Satyam, DB Reality) category was perceived to be unethical constituting to 41%. A little over 16% of the respondents felt DLF to be one of the unethical organisations.

Table 5.39: Are Organisation Concerned only about Financial Performance

Sr. No.	Y/N	Frequency	Percentage
1.	Yes	4	44.44
2.	No	5	55.56
	Total	**9**	**100.00**

Figure 5.16: Organisation Concerned only about Financial Performance



Yes Verbatim:
1. Most of the companies except a few bigger corporate
2. Most of the organisationsare. Although there is moreawareness and inclination towards ethics and related issues

No Verbatim:
1. much beyond financial, they also think about social sustainability
2. I do not think so. Financial performance and people management are interdependent
3. Not really. They also focus on employee satisfaction, CSR etc

The respondents' perception of whether the organisations are concerned only about Financial Performance was studied.

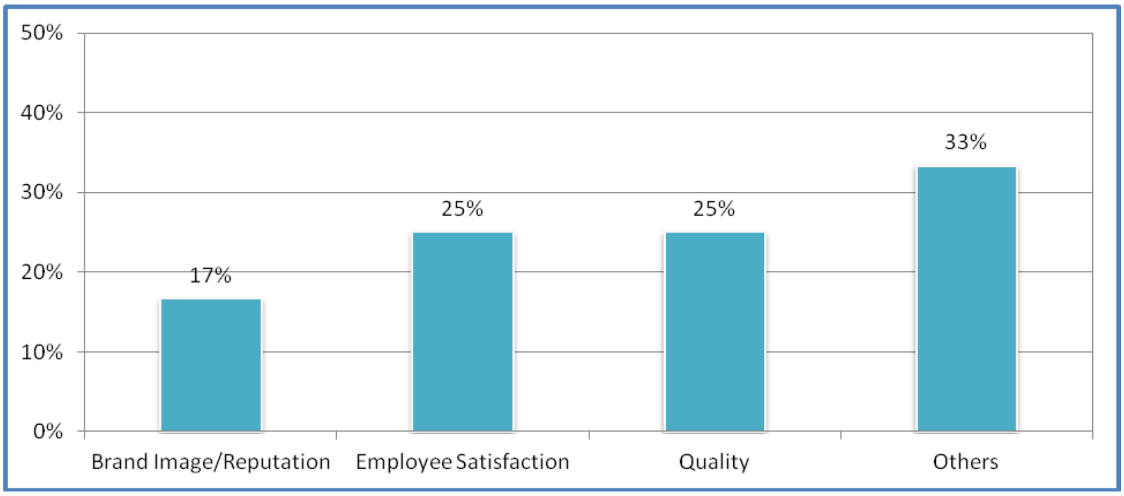
There were no significant different in the distribution in response to the question "Are Organisation Concerned Only about Financial Performance". About 44% responded that most of the companies except a few bigger corporate are concerned only about Financial Performance although there is more awareness and inclination towards ethics and related issues. The remaining 56% perceived that most of the companies think beyond financial they also think about social sustainability they also added saying that financial performance and people management are interdependent and organisations' also focus on employee satisfaction.

Table 5.40: Factors which can Indirectly Improve Financial Performance

Sr. No.		Frequency	Percentage
1.	Brand Image/Reputation	2	16.67
2.	Employee Satisfaction	3	25.00
3.	Quality	3	25.00
4.	Other	4	33.33
	Total	**12**	**100.00**

Other Mentions:
Long term sustainable approach
Biz Strategy
Energy efficiency improvement
Reliable Supplier/Contractor

Figure 5.17: Factors which can Indirectly Improve Financial Performance

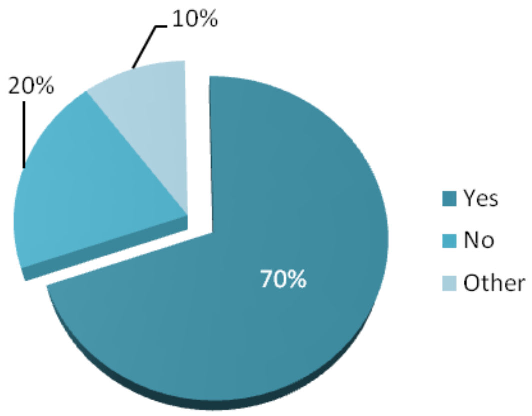


Factors which can indirectly improve financial performance were analyzed. Only about 16% of the respondents perceived that Brand Image/Reputation to be one of the indirect factors for financial improvement of the organisation. Employee Satisfaction and Quality was perceived to be indirect factor for organisation financial performances improve. On the other hand, about 33% stated some other factors like sustainable approach and business strategy etc. to indirectly improve financial performance.

Table 5.41: Not Adhering to Ethical Practices the Organisation can Improve Bottom Top Line

Sr. No.	Y/N	Frequency	Percentage
1.	Yes	7	70.00
2.	No	2	20.00
3.	Other	1	10.00
	Total	**10**	**100.00**

Figure 5.18: Not Adhering to Ethical Practices the Organisation can Improve Bottom Top Line



Yes Verbatim:

1. It may be able to temporarily. But it will not help in the long run

2. Yes, but that cannot be sustained

No Verbatim:

1.No, it will definitely boomerang one day

Other Verbatim:

1. But unethical companies lose out in the long run.

Not adhering to ethical practices can improve bottom/top line. The perception of 70% respondents was that it may help temporarily. About 20% feel that it will definitely boomerang one day and responded “no”. While 10% stated “other” felt that that unethical companies would lose out in the long run.

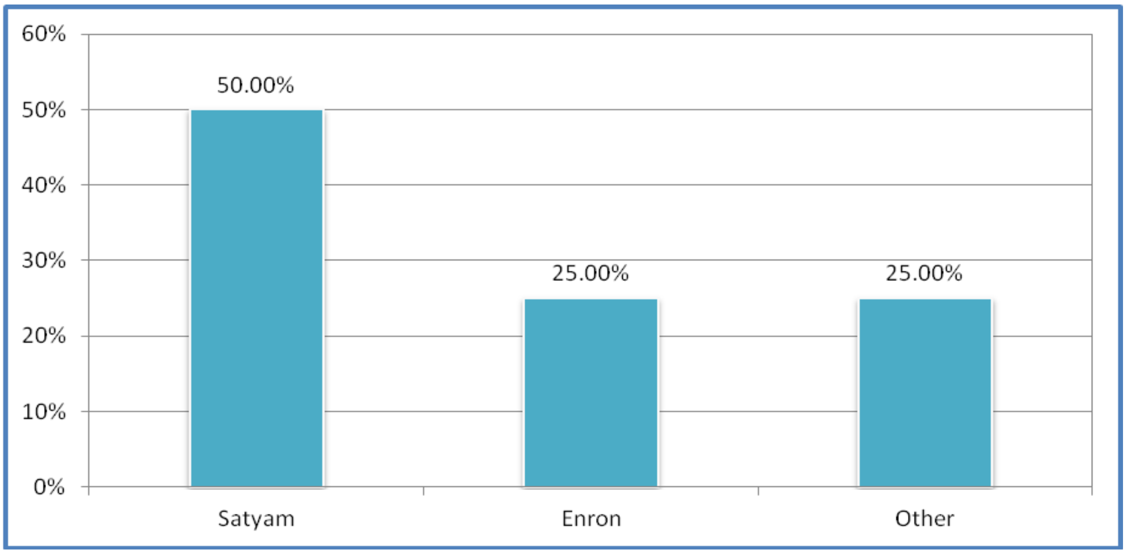
Table 5.42: Organisation which Collapsed due to Non Following of Ethical Practices in India or abroad

Sr. No.		Frequency	Percentage
1.	Satyam	6	50.00
2.	Enron	3	25.00
3.	Other	3	25.00
	Total	**12**	**100.00**

Other Mentions:

Goldman Sachs	1
DB Realty	1
HFCL	1

Figure 5.19: Organisation which Collapsed due to Non-Following of Ethical Practices

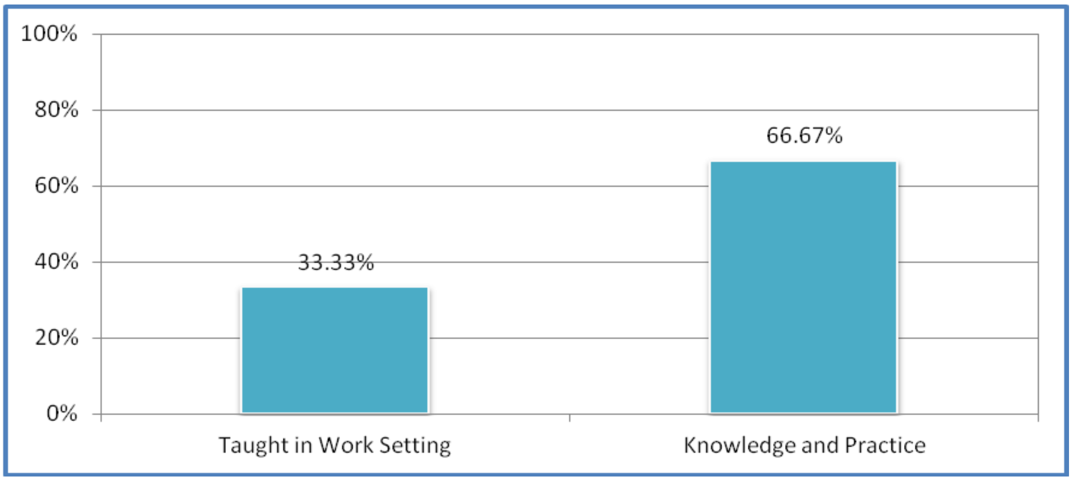


Organisations that collapsed due to non-following of ethical practices in India or abroad were analyzed. Majority (50%) of the respondents perceived that Satyam collapsed due to non-following of ethical practices. 25% perceived that Enron collapsed due to non-following of ethical practices. In addition, about 25% stated "Other" that collapsed due to non-following of ethical practices in India or abroad.

Table 5.43: Can Ethics be taught in a Work Setting or is it a Matter of Knowledge and Practice

Sr. No.		Frequency	Percentage
1.	Taught in Work Setting	4	33.33
2.	Knowledge and Practice	8	66.67
	Total	**12**	**100.00**

Figure 5.20: Taught in Work Setting



The respondents' perception on whether ethics can be taught in a work setting or is ethics a matter of knowledge and practices

About 66% of the respondent believed that ethics is a matter of knowledge or practices and about 33% of the respondents believed that Ethics must be taught in a work setting.

Table 5.44: Measures to Improve Implementation of Ethical Practices in an Organisation

Verbatim:

1. Ethical Behaviour Can Be One Parameter For Evaluation
2. Highlighting The Small Ethical Behaviours In Various Informal And Formal Forums
3. There Can Be Some Deterrents For Unethical Behaviour Like Punitive Actions In Cases Of Serious Violation Of Ethical Policy.
4. By Adopting It As A Culture
5. Top Management Involvement
6. Strong Disciplinary Measures
7. Recognition Of Ethical Behaviour
8. Transparency In Practices
9. Counselling And Educating Their Employees And Stakeholders
10. Making It A Way Of Life
11. Simply Having And Communicating The Code Of Conduct
12. Recognizing People Who Have Demonstrated Ethical Behaviour
13. Top Level Management Showing In Behaviour, Role Model
14. Ethics Training Or Awareness Building
15. Actual Implementing- Monitoring
16. Create More Awareness
17. Strict Measures Against Any Unethical Behaviour.

Summary:

1. Cronbach Alpha reliability test was done on the questionnaire of 26 items which gave a reliability score of .861 and for the 12 items it was .811.
2. CFA resulted in the three factors namely: Factor 1: Company Ethical Policy oriented, Factor 2: Society oriented and Factor 3: Customer oriented. A total of 12 items came under the 3 factors, so in future just the 12 items can be used to understand the ethical practices followed by organisations instead of the 26 items in the list of EBP.

3. Gap analysis was studied comparing the Relevance Mean Score and Practice Mean Score in corporates which reflect a clear gap between what is considered relevant to ethics and what is actually practiced in the organisation. The practices need to be increased.
4. The Pearson correlation was done between EBP and the 7 financial parameter/indicators shows a positive correlation across all the 7 financial parameter/indicators. Between EBP and Profit after Tax there is a 72% correlation. It is significant at 0.05 level.
5. The interviews done on the respondents parallel to administering the questionnaires indicated that 78% thought it does not cost the organisation to be ethical.70% of the respondents in the interviews said not adhering to EBP may improve bottom-line in the short run but result in a loss in the long run.

A variety of suggestions for the implementation of EBP in the organisations were also received, among them were top management involvement, ethics training and taking strong disciplinary action against unethical behaviour.

Chapter 6 - Conclusion, Implications, Limitations and Directions for Future Research

6.1 Summary of Findings:

As concluded in chapter 5 these are the key findings as summarised below:

- Cronbach Alpha reliability test was done on the questionnaire of 26 items which gave a reliability score of .861 and for 12 items it was .811.
- CFA resulted in the three factors namely: Factor 1: Company Ethical Policy oriented, Factor 2: Society oriented and Factor 3: Customer oriented. A total of 12 items came under the 3 factors, so in future just the 12 items can be used to understand the ethical practices followed by business organisations instead of the 26 items as listed in the EBP.
- Gap analysis was studied comparing the Relevance Mean Score and Practice Mean Score in the corporates which reflect a clear gap between what is considered relevant to ethics and what is actually practiced in the organisation. The gap needs to be bridged.
- The Pearson correlation was done between EBP and the 7 financial parameter/indicators which established a positive correlation across all the 7 financial parameter/indicators. Between EBP and Profit after Tax there was a significant correlation. It was significant at 0.05 level.
- About 78% of the respondents who were interviewed felt that it does not cost financially the organisation to be ethical whereas 70% said that not adhering to EBP may improve bottom-line in the short run but will result in a loss in the long run.

A variety of suggestions for the implementation of EBP in the organisations were also received. Prominently top management involvement, ethics training and taking strong disciplinary action against unethical behaviour and rewarding and recognizing people who have demonstrated ethical behaviour, were the suggestions.

The relationship in terms of the correlation between Ethical Business Practices and the seven variables of Corporate Financial Performance was analysed. There was a positive relationship between EBP and these variables.

Across the dependent variables computed only Profit after Tax attribute was statistically significant at 0.05 level.

There was a .12 relationship that existed between Earnings Per Share and Ethical Business Practices Score. The variable Closing Price of share showed a relationship where the results reflected .06. There was also a significant relationship in correlation between Salaries and Wages and Ethical Business Practices Score of .32. Sales and Staff welfare showed a relationship with the score of .19 and .18 respectively with the Ethical Business Practices Score. Capital Reserves was not reported due to a very small sample size of the data available.

One of the objectives of the study was to measure the ethical business practices in corporate India. With help of literature review, pilot study and experience of other scholars and corporate members, the researcher identified 26 variables. All these variables were exploratory in nature and, hence exploratory factor analysis was done by using PCA extraction, in order to confirm these extracted variables from the factor analysis. E/CFA approach was adopted, that was, extracting variables in EFA by using ML estimation, then the number of variables came to 12 and factors were 3.In order to confirm these, factor structure, loadings relation CFA was done. In CFA 5 step or building block was followed rigorously to measure the construct called Ethical Business Practices in Corporate India. The three Factors namely: Company Ethical Policy oriented, Society oriented and Customer oriented were included.

The qualitative analysis of the interview data reinforced the view that it does not pay to be unethical. Through interviews some of the findings were that 70% of the respondents felt that not adhering to ethical business practices may improve the bottom line in the short run, but firms may lose out in the long run.

A variety of suggestions for the implementation of EBP in the organisations were also received: Rewarding ethical behaviour, punishing unethical behaviour, top management involvement, adopting an ethical culture, transparency in practices and ethics training.

6.2 CONTRIBUTION OF THIS RESEARCH:

A check was done to see if the companies included in this study were also listed in the study by the Economic times and Great Places to work Institute. Interestingly it was found that 40% of the companies were included in the top 100 great places to work. However the survey was conducted only for companies that applied to the above institute, so the possibility was there that the balance companies or alteast some of them might not have applied. The listing was only top 100 great places whereas the companies studied were from the top 500 listed in ET. In India it was just 10 years old whereas in the US it was 20 years old research. The number of companies applying was steadily increasing. However there is no control for size, type of industry etc. to be included in the ET survey of great places to work.

There has been a very limited empirical work in the area of Business Ethics in India.

This research contributes theoretically by providing an advancement of the constructs of business ethics through literature review and empirical identification of the practices of business ethics followed or should be followed by companies in India. So long there is a vacuum in this area of research and keeping in mind the overall change in the socio-cultural milieu, corporate governance, awareness in the society and some global disasters which occurred due to absence of either existence or overlooking ethical business practices; there was and is a very significant and urgent need to identify, study, analyse and suggest ethical business practices to the business firms. The present study is a step in this direction and it has scientifically tried to explore existence and practise of ethical business practices among some of the top five hundred companies operating in India.

The contribution of this study is also relevant as business ethics have not been operationalized in the Indian organisational context having significant implications for organisations. This study can facilitate the designing and driving of more effective ethical business practices and processes and further the corporate policies affecting the processes as well. It will enhance the overall ethical culture in the organisations. It may also enable an organisation to develop ethics training in the relevant areas. Through the questionnaire organisations could attempt to close the gap between what its members perceive as relevant to ethics and the extent to which these are practiced. Also it could evoke interest in practices which are not yet considered mandatory but could be important in the near future. The various organisational policies that could be learnt from this study are: Reward and growth processes, Employment of Women and Diversity issues, Board composition, Choosing vendors, outsourcing and even recruitment practices, reporting of financial and other data, customer care and services, environmental factors in the areas where industry operates and other stakeholders interest etc.

This analysis is first of its kind to establish a clear, comprehensive and empirical evidence that being ethical is profitable and a good business investment. First time a workable list of ethical practices is established, tested and validates the need to follow such practices.

6.3 LIMITATIONS OF THE STUDY AND AREAS FOR FURTHER RESEARCH:

The questionnaire was administered to 121 employees across 10 organisations and interviews for 10 % of the respondents. A larger sample size could have added more richness to the data and findings but due to personal limitations at researcher end due to time, funds and lack of institutional support limited the sample size. However the conclusions and findings remain significant and valid for any future research endeavour in this area.

Future areas of research in this field can be suggested as: Identifying which of the factors lead to the development of an ethical culture. What constitutes Ethical leadership? Is there a gender basis for ethics? Is there a difference in the importance of EBP as rated by men and women i.e. based on gender. Is there a difference in rating based on the position of the respondent within the organisation i.e. junior, middle, senior and top management etc.

Is there a difference in EBP scores across industries? Though this has been studied to some extent in this study, it has been limited to three types of industries. With a larger sample size across different types of industries the results could help us understand whether EBP are universal or segment specific in industries.

A particular industry case study could be developed to provide better understanding of ethical practices in an industry in future research attempts.

Model for the ethical practices can be developed based on the three factors - 12 items identified through EFA and CFA. This model can be used to evaluate the ethics quotient or ethics score or ranking of the organisation on the ethical business practices (EBP).

6.4 CONCLUSION

The findings of this research make a contribution to an increased understanding of the theory and practice of Business ethics by generating empirical data and real life studies of practiced ethics in Indian Industry. This is a rare study as very few researchers have ventured into this area. By this study the author is opening up a new area of research so critical to the success of society, citizenry and industry.

So far, the area of ethical practices has been discussed in hush-hush voices in various forums in industry and society. It has more or less remained a closed arena for research for such a long time in our society. For the first time this study suggests the relevance, possibility, significance and need for further research in the area of ethical business in our country through employing scientific methodology of analysis and identifying what constitutes ethical business practices.

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Appendices

Appendix –I

PILOT QUESTIONNAIRE

ETHICAL PRACTICES

What are the various practices, policies laid down by the company with regards to ethics.

List of ethical practices:	Do you find this relevant	Do you practice this in your organisation	Rank all those that you find relevant in order of importance
1 CSR			
The organisation spend a certain percentage of the profit on CSR activities			
The amount spent changes every year, not based on any rule			
It is not only cheque book philanthropy (donations) or strategic i.e. based on benefit to the organisation but based on the urgent needs of the communities			
Volunteering employee hours towards social projects			
2 Diversity			
Minority representation			
Women representation			
Independent directors -% as per law			
Independent directors not exceeding tenure of 5 years			
3 General framework			
Code of conduct			
Ethics code			
Ethics training			
Ethics officer			
Ethics hotline			
Code of conduct for outsourced companies			
Code for punishment of sexual harassment			
Joined any association even though not mandatory for e.g. global compact, transparency international			
4 Employees			
Fair opportunities in training and promotion			

ETHICAL PRACTICES

What are the various practices, policies laid down by the company with regards to ethics.

List of ethical practices:	Do you find this relevant	Do you practice this in your organisation	Rank all those that you find relevant in order of importance
Good /safe working conditions			
Timely payment of salaries			
5 Government/SEBI /accounts			
Payment of taxes etc			
Following the guidelines listed by SEBI			
No fines levied by the govt			
Few clauses in the audit report			
6 Environment			
Actions to prevent global warming			
Actions to reduce carbon footprints			
Triple bottom line accounting			
7 Customer			
Providing information to the customer			
Keeping customer information confidential			
8 Additional practices			

Appendix –II:

FINAL QUESTIONNAIRE

Section I Background of the respondents

Please circle below the category which you belong to

a.	Name of the Respondent		
b.	Name of the Company		
c.	Level of Management	Middle Level	1
		Sr. Level	2
		Others ____________Pls specify	3
d.	Age	Less than35 yrs	1
		36-46 yrs	2
		47and above yrs	3
e.	Gender	Male	1
		Female	2
f.	Over all Experience in the industry	Less than 10 years	1
		10 to 15 years	2
		Over 15 years	3
g.	Experience in the present company	Less than 5 years	1
		5 to 10 years	2
		Over 10 years	3
h.	Type of Industry	Manufacturing	1
		IT/ITES	2
		Services	3
		Others	4

Section II Relevance to Ethics and Practice of Ethics activities in your organisation

Please note the 1st column asks you to rate how relevant to ethics you find each statement.

The 2nd column asks you to rate to what extent the statement reflects what is practiced in your organisation.

St#	Statements	Highly Relevant		NN		Least Relevant		Strongly Agree		NN		Strongly Disagree
q1	The organisation spends a significant percentage of the profit on social development activities	5	4	3	2	1		5	4	3	2	1
q2	The organisation has a well thought out CSR policy just not charity and donations.	5	4	3	2	1		5	4	3	2	1
q3	CSR is based on the urgent needs of the communities it works in.	5	4	3	2	1		5	4	3	2	1
q4	It volunteers employee hours towards social projects	5	4	3	2	1		5	4	3	2	1
q5	It has a significant minority representation across the employees level	5	4	3	2	1		5	4	3	2	1
q6	It has a fair level of Women representation on the companies roll	5	4	3	2	1		5	4	3	2	1
q7	It has number of Independent directors as per SEBI guidelines	5	4	3	2	1		5	4	3	2	1
q8	It has a clearly laid out ethics code	5	4	3	2	1		5	4	3	2	1
q9	It enforces ethics training across its employees	5	4	3	2	1		5	4	3	2	1
q10	There is a specially designated Ethics officer	5	4	3	2	1		5	4	3	2	1
q11	Ethics hotline (reporting misconduct over phone or mail) is functional and accessible to all employees.	5	4	3	2	1		5	4	3	2	1
q12	It enforces Code of conduct for outsourced companies.	5	4	3	2	1		5	4	3	2	1
q13	Code for punishment of sexual harassment is clearly designed and communicated to all employees.	5	4	3	2	1		5	4	3	2	1
q14	Company is a member of associations which deals with ethics, corporate governance even though it is not mandatory (e.g. global compact, transparency international, etc)	5	4	3	2	1		5	4	3	2	1
q15	There is fair opportunities in promotion and reward systems	5	4	3	2	1		5	4	3	2	1
q16	The company ensures good and safe working conditions for the employees	5	4	3	2	1		5	4	3	2	1

St#	Statements	Highly Relevant		NN		Least Relevant		Strongly Agree		NN		Strongly Disagree
q17	It ensures timely payment of salaries	5	4	3	2	1		5	4	3	2	1
q18	It ensures timely payment to vendors	5	4	3	2	1		5	4	3	2	1
q19	It ensures timely payment of taxes etc. (no fines levied)	5	4	3	2	1		5	4	3	2	1
q20	The organisation is concerned about the energy efficiency (uses LED lights, water conservation etc)	5	4	3	2	1		5	4	3	2	1
q21	The organisation practices waste management (e-waste, water recycling etc)	5	4	3	2	1		5	4	3	2	1
q22	It follows Triple bottom line (social, financial and environmental accounting in the balance sheet) and not just financial indicators	5	4	3	2	1		5	4	3	2	1
q23	The company provides complete information about their products and services to the customers	5	4	3	2	1		5	4	3	2	1
q24	It maintains customer information confidential	5	4	3	2	1		5	4	3	2	1
q25	Company ensures that the promises made to customers are fulfilled (delivery, services and after sales services)	5	4	3	2	1		5	4	3	2	1
q26	It follows the corporate governance voluntary guidelines	5	4	3	2	1		5	4	3	2	1

Section III Perceived Financial Performance

Please identify any five items mentioned above which according to you contribute to financial health of the organisation?

S. No.	Mention the Statements Number
1	
2	
3	
4	
5	

Please identify any five items mentioned above which your organisation would practice in spite of recession?

S. No.	Mention the Statements Number
1	
2	
3	
4	
5	

Appendix –III:

QUESTIONS FOR PERSONAL INTERVIEW

1. Which of the ethical practices (any 3) do you think are most relevant for an organisation to be considered ethical?

S. No.	
1	
2	
3	

2. Do you think that ethical organisations perform better?

3. Or is it a cost to organisations to be ethical?

4. In India which group/ organisation do you think is ethical (name 3) and why?

S. No.	
1	
2	
3	

Why?

5. Are you aware of any organisation which according to you follows unethical business practices?

S. No.	
1	
2	
3	

6. Are organisations concerned only about financial performance?

7. Are there any other factors which can indirectly improve financial performance?

8. Do you think by not following ethical practices the organisation can improve bottom/top line?

9. A9.Are you aware of any organisation which collapsed due to non-following of ethical practices in India or abroad?

10. Can ethics be taught in a work setting? Are ethics a matter of knowledge or practice?

11. Can you suggest any 3 measures to improve implementation of ethical practices in organisations?

Thanks for your time and effort!

Appendix – IV:

Brief write up on types of industries covered and the 10 companies surveyed and interviewed

Brief write up on the types of industries covered

MANUFACTURING INDUSTRIES

The manufacturing vertical has a high technological impact and immense value adding effect in an economy despite services taking a front seat with higher GDP contributions.

The Global Manufacturing industry is currently experiencing a shift of axis of power from traditional powerhouses like USA, Japan, and Germany to emerging Asian super powers, China, India and the Republic of Korea.

With a large number of companies shifting their manufacturing base to India, the country is fast emerging as a global manufacturing hub.

Given the competitiveness of manufacturing enterprises is now being related to their ability to extract maximum performance from networks, firms are accelerating the implementation of IT and telecommunication solutions.

The Indian manufacturing vertical is on the course of rapid expansion buoyed by domestic consumption and also the growing acceptability of the ‘Made in India’ label.

SERVICE INDUSTRY

An industry made up of companies that primarily earn revenue through providing intangible products and services.

Service industry companies are involved in retail, transport, distribution, food services as well as other service-dominated business.

Service sector in India today accounts for more than half of India’s GDP. This marks a watershed in the evolution of the Indian economy.

Services or the ‘tertiary sector’ of the economy covers a wide gamut of activities like trading, banking, finance, infotainment, real estate, transportation, security, management and technical consultancy among several others.

IT INDUSTRY

IT is one of the most important industries in the Indian economy. The IT industry has registered huge growth in recent years. In the last 10 yrs the IT industry in India has grown at an average rate of 30%.

The liberalisation of the Indian economy in the early 90’s has played a major role on the growth if the IT industry of India. Deregulation policies adopted by the Government of India have led to substantial domestic investment and inflow of foreign capital to this industry.

During 1992-2002, the Indian software industry grew at double the rate of the US software industry.

BRIEF WRITE UP ON THE VARIOUS ORGANISATIONS

CO 1:

It is one of India’s largest paint company in India and Asia. The group has an enviable reputation in the corporate world for professionalism, fast track growth, and building shareholder equity. It operates in multiple countries and also has paint manufacturing facilities in the world servicing consumers in many countries.

The company has come a long way since its small beginnings in the mid 1900’s.Over the years it became a corporate force and one of the leading paints company. Driven by its strong consumer-focus and innovative spirit, it today manufactures a wide range of paints for Decorative and Industrial use.

It has always been ahead when it comes to providing consumer experience.

CO 2:

It is a leading global telecommunications company with operations in many countries across Asia and Africa. The company offers mobile voice & data services, fixed line, high speed broadband, IPTV, DTH, turnkey telecom solutions for enterprises and national & international long distance services to carriers. It has been ranked among the top performing technology companies in the world by business week. It has many million customers across its operations.

CO 3:

This is a leading Network Services company, offering services and solutions to address the Network Life Cycle requirements of Telecom Carriers and Technology providers (OEMs). It has operations in more than 40 countries.

It is a leading business group focused on Network Services and Shared Telecom Infrastructure. It has 7 operating companies, two of which are listed on Indian Stock Exchanges.

The Group has operations across 40 countries around the globe, employs people of 22 nationalities and supports 18 social causes. It provides complete life-cycle solutions around Network Services. The services include Network Planning and Design, Network Deployment, Network Operations and Maintenance, Infrastructure Management, Energy Management and Professional services.

It has received many accolades and awards for excellence in Business, CSR and Corporate Governance.

CO 4:

It is one of India's leading electrical technology and solutions provider in over 40 countries. In over 4 decades, it has transformed from a single product company to a multi-product and solutions provider for power generation, transmission, distribution and industry. Amongst the Power Equipment category, it has been ranked in the top ten.

Manufacturing plants in India conforming to global standards, solutions and customers in 40+ countries around the world, it anticipates and develop tailor-made solutions for unique customer needs through various pioneering practices like engaging an International Advisory Board on Technology, leveraging customer case studies to build knowledge references across the company.

It focuses on its customers and strives to match their exacting needs and expectations. Today, behind every product and every action, the customer has become the sole

focus. This culture is sustained by core values of becoming customer-centric, reliable and result-oriented.
It is also committed to environmental & social responsibility for a better tomorrow.

CO 5:

This organisation has been associated with the Indian subcontinent for around five decades. After setting up within a span of three years from commencing operations, the business venture started to generate profits.
Today, it has grown to become one of the country's leading manufacturer of diesel and natural gas engines. Comprising of four business units - Industrial Engine, Power Generation, Distribution, and Automotive, The Industrial Engine Business caters to the industrial sector with its broad spectrum of diesel engines. The range is designed to power varied market segments such as Construction, Mining, Compressor, Marine, Rail, Agriculture.
The Power Generation Business addresses standby and prime power needs through the design and manufacture of pre-integrated generator sets, transfer switches, paralleling equipment and controls.
The Automotive Business integrates Cummins' diesel and natural gas engines with related technologies such as filtration, exhaust, turbo, fuel and coolant systems and lube oil to serve the commercial vehicle segment in India.

CO 6:

It is one of the largest companies in India.
It is one of the highest ranked Indian company. Its vision is driven by a group of dynamic leaders who have made it a name to reckon with. Its India's pride.

CO.7

It is a technology, engineering, construction and manufacturing company. It is one of the largest and most respected companies in India's private sector. Many decades of a strong, customer-focused approach and the continuous quest for world-class quality have enabled it to attain and sustain leadership in all its major lines of business. It has an international presence, with a global spread of offices. A thrust on international business has seen overseas earnings grow significantly. It continues to grow its overseas manufacturing footprint, with facilities in China and the Gulf region. The company's businesses are supported by a wide marketing and distribution network, and have established a reputation for strong customer support.

It believes that progress must be achieved in harmony with the environment. A commitment to community welfare and environmental protection are an integral part of the corporate vision.

CO 8:

This Group is one of the fastest growing business conglomerates with a strong presence in the core economic sector.

This enterprise has grown from a steel rolling mill to a multi business conglomerate worth billions within a short span of time. It has diversified interests in Steel, Energy, Minerals and Mining, Aluminium, Infrastructure and Logistics, Cement and Information Technology. On its road to growth and expansion, the Group is also conscious about its responsibility towards environment and social development. Eco-efficiency is a matter of principle. Preventive measures for damage to the environment are taken into account at the planning stage of production and growth. The CSR wing has a vision to create socio economic difference in the fields of Education, Health and Sports, Community Relationship / Propagation as well as Art, Culture and Heritage.

CO 9:

It was amongst the first to receive an approval from the Reserve Bank of India (RBI) to set up a banking the private sector, as part of the RBI's liberalisation of the Indian Banking Industry.

CO 10:

It started its business operations with roll out tractors. Today it is a significant player in the Indian automobile industry.

It has diversified business interests in design & development, manufacturing and local/ international marketing of Trucks & Buses, Motorcycles, Automotive Gears and components.

In addition it has also invested in the potential growth areas of Customised Engineering Solutions, City Map & Travel Guides.

The Group's products are brought to the customers through its strong network of dealers distributed across the length and breadth of the country. It is present in many countries across the world.

Expertise has been developed in the areas of design and development of Trucks & Buses, Automotive transmission, Electronic instrumentation, Material science, Metrology as well as prototype manufacturing and testing.

Appendix –V:

Definition list of the 7 parameters of corporate financial performance

1. Net profit/PAT
2. Sales
3. Capital Reserves
4. Earnings Per Share
5. Closing Price of Shares
6. Salaries and Wages
7. Staff Welfare

Definitions:

1. Net Profit - Often referred to as the bottom line, net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year) also called net income or net earning.
2. Sales Revenue - The amount realised from selling goods or services in the normal operations of a company in a specified period.
3. Capital Reserves - A type of account on a company's balance sheet that is reserved for long term capital investment projects or any other large and anticipated expenses that will be incurred in the future. This type of reserve fund is set aside to ensure that the company has adequate funding to at least partially finance the project.
4. Earning Per Share (EPS) - The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

   Calculated as: <u>Net Income-Dividends on Preferred Stock</u>

Average Outstanding shares

5. Closing Price of shares – The closing price of a stock is the price of the final trade of the trading of the trading day.

6. Wages and Salaries – Wages and salaries are defined as the total remuneration in cash or in kind payable to all persons counted in the payroll (including home workers) in return for work done during the accounting period regardless of whether it is paid on the basis of working time, output or piece work and whether it is paid regularly or not.

7. Staff welfare refers to the various amenities that are made available to the employees for their general welfare. These are besides the regular remuneration in the form of salaries etc. Staff welfare expenses may be in the form of free or subsidized medical treatment, transportation facilities, recreation facilities, staff food, canteen expenses, staff and labour welfare etc. These expenses do not form a part of the employee's salary but are borne by the employer for the benefit of the employees. Sometimes companies put it under salary and staff welfare together. Also sometimes part of the amount from staff welfare is recovered from the employees.

List of Publications and Presentations

1. Anita Shantaram, 'Does it Pay to be Ethical', Performance Management: Harnessing Human Capital for Performance Excellence, Institute of HRD, 2006, pages 189-199
2. Anita Shantaram, 'Can Ethics Be Taught', Quantum Leap in Building World Class Skills Through Training and Development, Indian Society for Training and Development (ISTD), 2010 pages 1-5
3. Understanding Business Ethics, ejournal Sansodhan "Business Ethics for Global Success of Indian Businesses" organized by Gujarat Technological University (GTU), 2010
4. Understanding Business Ethics "SANKALPA: Journal of Management & Research" Reprint of the above article, 2011SMJV's CKSVIM (reprint of the above paper)
5. Anita Shantaram, 'Ethical Practices in Organisations: Developing the List of Ethical Practices and checking for their Relevance and its Practice in Organisations', SIMSARC10, New Delhi, 2011 pages 142-149
6. Dr. Lata Chakravarthy, Dr. P. J. Lavakare, Anita Shantaram et al, A Teacher's code of conduct, Working Paper, Higher Education Forum, 2011
7. Ethical Business Practices and Corporate Financial Performance' presented and published in the 13th Biennial ISSWOV (International Society for the study of Work and Organisation Values) Conference held in Goa, India, June 24-27, 2012.
8. CSR- Do right the right way – Abstract accepted. Full paper submitted for the 6th National Management Convention on Corporate Social Responsibility in India: Taking the next leap forward.

Brief Biography of the Candidate

Mrs. Anita Shantaram is the first woman to be certified as Grid Instructor in India after successfully completing the course in USA.

She holds a post graduation degree in Industrial Psychology from Bombay University.

She has published and presented papers at National conferences. Does it pay to be Ethical, Can Ethics be taught, Ethical Practices, Understanding Business Ethics. She has also co-drafted the Teachers code of conduct for HEF (Higher Education Forum).

She has received the outstanding teacher award in the area of Business Ethics on 5th Sept 2013 from HEF.

She has attended the Dale Carnegie course “High Impact Presentations” and Steven Covey’s Time Management programme in USA. She has also undergone “Train the Trainer” programme in Transactional Analysis.

A faculty member at Sydenham College, Mumbai for (BMS) on Communication skills 2002 to 2009 and Organisational Behaviour, she has earlier taught Psychology at Jaihind College, Mumbai. She is also teaching Soft Skills, Business Communication and Business Ethics at IBS business school since 2007.

She has been a guest faculty to various Management Institutes and has conducted over 1000 workshops in India and Dubai on various topics such as:

- Grid Seminars Communication Skills
- Interpersonal Relationships Self-Development
- Public Speaking Presentation Skills
- Customer Service Work-Life Balance
- Time Management Transactional Analysis
- Stress Management Ethics and Values
- Managerial Effectiveness Business Etiquette

- Team Building Personal Effectiveness

She is a facilitator for outbound- adventure training programmes. She has also co-designed a powerful workshop called the ‘Grid Adventure’.

She has conducted a series of Train the Trainer programmes for organisations such as RKHS and Aditya Birla group and more.

She has conducted workshops for organisations such as AMW, Infosys Technologies, Larsen and Toubro, Tata Consulting Engineers, Jindal Power, J M Baxi, Lupin, Castrol, IndianOil, Intertec Systems (Dubai), Utmost group (Dubai), Intergold, Motorola, Reliance Industries, Orchid Hotel, Owens Corning, Cap Gemini, Zenta, The Fern Group, Honda Siel, Penguin India, CMC, JK Tyres, Patel Roadways, SEBI, Godfrey Phillips, Crompton Greaves, RBI, Hinduja Hospital, Bombay Hospital, Symantec to name a few.

She has been a panel trainer for BMA and FICCI

Her articles have been published in BMA Review, the Times of India and the Self Development Magazine.

Her first book 'Speak Well Do Well' on public speaking skills has been well received. It is now in its 3rd edition.

She has also written in the book ‘Self Development for Sure Success’.

She was the President for 2009-2010 for Rotary Club of Bombay Bayview. She is the Assistant Governor for the year 2013-2014.

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Academic Qualifications

- Master program in Business Administration 1975
  University of Udaipur (Gold Medalist)
- Doctor of Philosophy (Ph. D) 1982 .
  Punjab University in Business Administration
- Fellow, Asian Productivity organisation, Tokyo Japan
- LDP (leadership Development Program I& II)
  Centre for Creative Leadership, Greensburo
  North Carolina, USA, 1996

Research and Teaching Experience

- Faculty at XLRI, SPJIMR, ITM
- Over 27 years of teaching experience at PG level
- 6 years of industry experience at senior level of Management in Europe and Africa
- Published 32 research papers in journals of national/ international repute
- Two Books published during 1982 and 1983
- Guided M. Phil, Ph.D candidates and Ph. D examinees of DAVV Indore, Vikram University, Ujjain, Kurukshetra University, and many other Universities
- Recently appointed Ph. D Director by Tilak Maharashtra Vidyapeeth (DU) at Pune

Consulting Experience

- Worked as Trainer/ Senior Trainer
- Consulting assignments with L&T, ACC, PNB, IIM, Godrej Soaps, Godrej Boyce and many other corporate houses.
- Presently Guiding Research Ph. D Scholars working for their Ph.D

Brief Bio-data of the Supervisor

Name of the Candidate	Anita Shantaram
Name of the Supervisor	Dr. M. L. Monga
I.D. of Candidate	2005PHXF031P
Qualification of Supervisor	PhD
Present Designation & Organisation	Executive Director IBSAR
Area of Research	Doctor of Philosophy (Ph. D) 1982 Punjab University in Business Administration
Work Experience (Years)	Over 27 years
Number of publications	32 papers and 2 books
Number of Ph.D students supervised	Currently 4 students