A STUDY ON FORMAL ETHICS TRAINING IN INDIAN ORGANIZATIONS

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Abstract

In today's era of globalization, where Indian conglomerates are going abroad and foreign companies are investing heavily in India, business ethics are becomingan important prerequisite for doing business in the domestic as well as global arena. Indian organizations have to recognize the importance of ethical practices and corporate governance for their long term sustainability. When organizations do not nurture policies that foster and maintain ethical conduct, employees may indulge in behavior that would lead to undesirable consequences for consumers, employees, organization and the society at large. Most of the Indian organizations see ethics in a vague manner, unclear and unplanned about what they have to do. The ethics training/ programis inadequate unless each and every employee is extensively trained about what, how and why of it. Ethics training should be much more than just a few lectures or seminars on code of conduct. Formal ethics training helps in reducing consumer loss, tarnishing of brand image and huge litigation costs. This study analyzes the theoretical framework of the formal ethics training program and the current status of formal ethics training program in Indian organizations. It also suggests a model for formal ethics training in Indian organizations.

Keywords: Formal Ethics Training, Indian Organizations, Code of Conduct, corporate governance

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Introduction

A trustworthy organizational environment is an essential part of the identity of any organization and this factor of trust arises from the ethics of the company and that of its employees. Ethics deals with the right and wrong of human behavior and can be extended to the organizations as well. An ethical workplace place is one where management and employees uphold ethical principles, comply with legal business procedures and stress upon appropriate behavior between various stakeholders. Organizations set out their own ethical principles and guidelines that are to be followed by all stakeholders associated with the organization. This is often laid down in the form of the "Code of Conduct". One of the major mistakes committed by most of the organizations is that they just devise a code of conduct and leave it without communicating properly to the employees. Effectiveness of code of ethics lies in maximizing the commitment from the employees by making them part of the formation process, communicating it properly to them and imparting rigorous training. A code of ethics without effective communication and training is as good as not having one. A code of ethics would create more conflict in the organization if employees cannot relate to it and if the values of the employees and that of the organization are far apart. This is where the formal ethics training comes into picture.

Formal ethics training aims at imparting an end to end learning to the employees of the organization about the core ethical values which drive the organization. The main goal of ethics training program is to bring employees and the organization on the same page in the ethical front.Each individual hashis/her own set of principles which are from his/her frame of reference and this may or may not be ethical or right for the company. Formal ethics training tries to bridge this gap and enables employees to make professional decisions ethically. Like any other training program, for ethics training to be effective, it should be planned as per the requirements of the target audience. This study tries to understand the pillars on which formal ethics training should be based on, how to assess the needs of the employees and how to measure the effectiveness of the program and institutionalize it. Unlike other training programs, employees or their supervisors cannot specify the actual training requirements of theethics training program. It has to do more with the intrinsic traits of the employees which makes it all the more difficult. Once the training is conducted it is again tough to assess the progress of the employees and a very systematic and integrated approach is required to make the ethics training achieve its objectives.

Above all, the entire exercise will be fruitful if and only if it becomes part of the organizational culture and top management endorses the very purpose of it.

After the opening up of Indian economy in the 1990s, a large number of multinational companies havestarted operating from India. Also, a multitude of Indian companies have forayed into global markets. Of late, we have been hearing stories of a large number of corporate scandals in India, mainly due to bad corporate governance or poor ethical inclinations of employees which have pointed fingers towards the credibility of the Indian Corporate itself. Many powerful investors, includingFIIs have started thinking twice before investing in India. In this context, it is extremely necessary for us to understand the current status of ethics training in Indian organizations and identify areas of improvements.

Literature Review

Result of Ethics Crisis in an organization

Many studies have pointed out the detrimental effects of unethical behavior which in turn are answers to critics of ethics training. Ethical errors terminate careers more swiftly and definitively than any other error in decision-making or accounting. Unethical actions usually are an outcome of ethical naiveté. An employee may be carrying out orders without thinking about the outcome of the situation. Ethicsprovidea framework within which business life must be understood.A tarnished image is the most dangerous thing that can happen to a business. This image of a profit seeking unethical organization is detrimental and may prove impossible to overcome (Solomon and Hanson, 1985).

Need for Formal Ethics Training

India has seen a lot of scandals, both in public sector as well as private sector enterprises. With the expansion of telecommunication infrastructure and the internet, media has become a very strong pillar of the society. Any small incident becomes big news and spreads like wildfire. This actually increases the responsibility of organizations to maintain their brand image by manifolds. The increasing incidents of governance and corporate ethics scandals in the early 21st centurymade many corporate stalwarts and management scholars think about ethics education as an essential component of business education (Halbesleben, et al. 2014). The recognition of the

link between ethics and profits is the force behind the institutionalizing ethics (Goodard, 1988). An organization has numerous components which conduct transactions with multitudes of stakeholders. Ethics training becomes necessary to bind this motley crowd into an organization which is consistent, transparent and responsible towards society in its ideology and action.

Benefits of Formal Ethics Training

Many studies have offered a plenty of benefits from formal training in ethics. Ethics training tries to bring a more positive influence on values of employees and helps them manage the strength of their characters; cope with ethical challenges in any career, and assists them in crafting a supportive, ethical environment for their underlings (Kohls, et al.1989). It makes employees more conscious of the ethical dimensions of their choices and actions thereby increasing the probability of an employee to reach the correct decision under time pressure (Otten, 1986). Some organizations are thinking of employing ethics to gain an "ethical edge" in accomplishing their long-term goals (Kohls, et al.1989). Thus, itseems that Code of ethics and training allow companies to improve employees' demeanor by working through and growing employees' insights of their immediate ethical context (Valentine and Barnett, 2002). Many scholars have contended that the existence of a code of ethics is a necessary, but not sufficient condition for creating an ethical organizational climate (Berheim, 1987). Training and guidance are usually essential to effectively strengthen code of ethics (Bohren, 1992) Ethics training is most likely to be effective when it is clubbed with management systems that strengthen the kinds of behavior which the organization believes in (Vogel, 1987). But employees might not contribute to the values advocated by these programs. These ethics training programs must be supported by someother structural frameworkin order to be effective. Various initiatives are fruitful when encouraged by a strong ethical culture and the organizational environment plays the most significant role in influencing the ethical behaviors of employees (James, 2000).

Goals & Objectives of Formal Ethics Training

The objective of ethics training is not to teach morality. It rather assists employees in taking correctdecisions from a position which is morally comfortable to both the organization and the employee (Knouse and Giacalone, 1997). The training should encourage the employee to analyze his past and future decisions and make them consistent with the values of the employee and the

organization. Structured ethics training helps both the employees and the establishments explain their ethical expectations. An effective ethics training program is organization-specific and takes benefit of self-regulatory incentives by developing ethical standards and appropriate communications, controls, and training to ensure employees and other stakeholders understand and abide by these expectations (LeClair and FerrellSource, 2000).

Four basic elements are essentially required in creating an effective training program and learning environment. These are identical elements, teaching of general principles, stimulus variability, and conditions of practice. Training in ethics increases an individual's responsiveness of the ethical content in various circumstances. The goal of ethics training should be connected to organizational goals, risk areas, and wanted outcomes. These goals are to provide tools to assist employees in understanding the ethical decision making process, aid people in assessing ethical priorities,provide a meansto deal with people who violate ethical standards,enable employees to recognize ethical problems w.r.t. the company policy,increase sensitivity of employees towards ethical issues andimprove the ethical climate of a business through the creation of ethics support systems and codes. People employed in companies with formalized ethics training programs have more positive perceptions of organizational ethics than those working for organizations without such training (Valentine and Fleischman, 2004). Organizations should offer ethics training that covers key organizational values and top leadership should ideally supervise such training so that its significance is emphasized in the organization. The goal of ethics training should be tofacilitate the moral maturity process of employees, especiallythe managers (Weber, 2007). Kohlberg's theory of 'cognitive moral development' provides useful perspectives for identifying appropriate goals for business ethics initiatives, including ethics training programs. He also opined that learning styles of the people also matter when it comes to designing programs.

Research Gap

All the prior studies on this topic talk about the importance of having formal ethics trainingin organizations and the theoretical aspects which need to be taken into account while imparting ethics training. But all these studies are fragmented and there is no holistic study, whichhas an integrated approach towards formal ethics trainings. This study tries to bridge this gap by

gathering the various theoretical aspects which are dispersed across the various scholarly articles and formulating a holistic approach towards ethics training.

Research Methodology

Method 1:

Websites of different companies were searched for formal ethics training methodologies. The criterion of selection of these companies was Golden Peacock Awards. Golden Peacock Awards was instituted by the Institute of Directors, India in 1991. They are now considered as a benchmark of Corporate Excellence worldwide.

Method 2:

The investigation methodology included a questionnaire study that was administered to over 2200 professionals through LinkedIn and Facebook and was kept open from 25th March to 14th April 2014. Random Sampling method was used for the same. The total responses were 58.
An online survey was created with questions pertaining to various issues such as whether business ethics training is happening in major Indian companies and to what extent i.e., formal, self or instructor led trainings. Other focus area was the different training methodologies adopted by the companies for ethics training and the frequency of the training.Impact on the ethical inclinations of the employees was also assessed.

Data Analysis & Results

Method 1:

Analysis of top three winners of Golden Peacock Awards for Corporate Social Responsibility

The winners of 2013, Mahindra & Mahindra,IDBI Bank and Yes Bank, respectively, have no formal ethics training for employees. Code of Conduct is present for managers & above, employees and directors & senior managers respectively for the above three companies.For the year2012,the winner Vodafone has no formal ethics training for employees. But it has a Code of Ethical Purchasing and Code of Ethics for employees. The first runner-up Samsung India Electronics Pvt. Ltd has a code of conduct in place. It also provides training to employees in business ethics. The second runner-up Schneider India Pvt. Ltd. is engaged with UN Global

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compact since 2002. A Responsibility and Ethics Dynamics program ispresent in the organization. It provides employees with effective support (policies, procedures, tools & best practices) and appropriate guiding individuals in their daily actions and decision-making. It also provides them information on how to notify the authorities on breach of ethics. It also has a supplier guide book for suppliers.None of the winners of 2011 have formal ethics training for employees. A Code of Conduct is present in Punjab National Bank and Tata Motors. Tata Motors also has anEthics and Compliance committee

Analysis of top three winners of Golden Peacock Awards for Excellence in Corporate Governance

The winners of 2013, Canara Bank, E. I. Du Pont India Pvt. Ltd. and Mahindra & Mahindra respectively have no formal ethics training for employees. Code of Conduct is present for managers & above in Mahindra & Mahindra and for employees in E. I. Du Pont India Pvt. Ltd.

No formal ethics training program for employees is present in State Bank of India, Dabur India Ltd. and Persistent Systems Ltd.These companies are the winners for the year 2012. Only State Bank of India has a Code of Conduct for managers & above. None of the winners of 2011 have formal ethics training for employees. A Code of Conduct is present in Indian Oil Corporation Ltd. for directors and senior management personnel

Method 2:

From the survey, itis clearly visible that in most of the Indian organizations, formalethics training is not happening, even though the majorityof the employees saythat such training is important for organizations. Also, in most of the organizations, ethics training is restricted to training during the induction programwhich is primarily related to the code of conduct of the organizations. Very few organizations have other forms of training. Majorityof the people also responded that the ethics training had no impact on their ethical values or they cannot comment about whether it has happened or not. Hence, it can be concluded that there is a need for systematic and holistic ethics training in Indian organizations which can have an impact on the ethical values of the employees.This shows the need for developing a formal ethics training framework for organizations.

Integrated Formal Ethics Training Framework:

This model of formal ethics training has been developed on Kohlberg's stages of moral development, personality types, adult learning theories, Freeman's Stakeholder Theory of the firm and Kirkpatrick's Training Evaluation model.
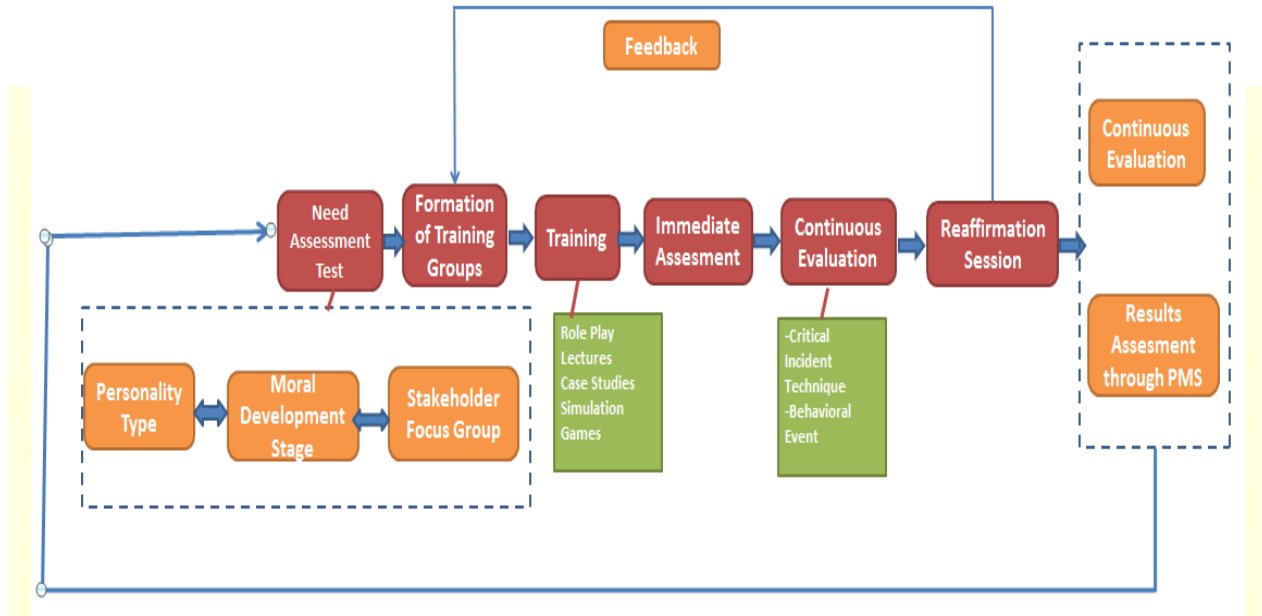

Figure 1: Flow chart of ethics training process

Kohlberg's stages of Moral Development: Kohlberg suggested his 3 level framework of moral development where each level is again subdivided into two sub-levels. Hence, there are six stages of moral development for an individual. In the first two stages, the behavior of the individuals is based on rewards or punishments and self-interest. In the next two stages, individuals behave the way it is expected from them or as per what is right for others. The highest stages are those when an individualwould behave based on his intrinsic ethical values which are formed from social duties and the universal ethical values. Weber (2007) suggests that the goal of ethics training should be to facilitate the moral maturityprocess of employees especially the managers. So in this model it would be very important to identify the current mental stage of the employee and impart training to move him from the lowest stages of mental development to the highest.The personality of the employees is also important in designing a formal ethics training program. Ethical inclinations depend on the personality. For example, for a

person with a Machiavellian personality achieving the ultimate goal is what matters. He may follow any means to do that. So he may indulge in unethical behaviors as well.

Adult Learning Theories: There are so many theories pertaining to the way adult learning happens. Theories suggest that there are three different domains of adult learning; cognitive (knowledge), affective (beliefs and values) and behavioral (actual behaviors). Also, learningstyles of each individual may differ. There are mainly three learning styles; Auditory (where the individual learns by listening), Visual (learning happens through seeing) and Kinesthetic (learning happens by doing). For the trainings to be effective, these aspects need to be considered. In an organizational context, it is not easy to customize trainings based on the learning style of each individual. So this model suggests use of a combination of methods like lectures, role plays, simulation games, case studies and so on for effective ethics training.When designing the training program, one more factor needs to be taken into account. All the employees would not be dealing with the same set of stakeholders and the situations which they have to face will vary. Hence the training should try to include that stakeholder with whom the employee has the maximum interactions and try to cover various ethical dilemmas which may occur during those interactions.The model suggeststhe developmentof a new psychometric test which would identify the moral development stage of the employee and his/her personality. On the basis of this test and the stakeholder with which the employees have maximum interactions, they can be divided into training groups and can be given appropriate trainings which are a combination of lectures, role plays, simulation games, case studies and so on.Kirkpatrick's Training Evaluation model uses for stages of evaluating the training effectiveness; the immediate reaction of the employees needs to be checked by using post training tests or feedbacks. The learning and behavior evaluation should be an ongoing process in the workplace. Finally, the results can be evaluated through the Performance Appraisal process. This is where the modelbringsintothe Performance Management System (PMS) into the formal ethics training program. Any program, if not institutionalized will not yield good results and can also wade off in a small period of time itself. Making ethical behavior a component in the PMS would help this purpose.

Conclusions

As is evident from the website survey as well as individual questionnaire, formal ethics training is not present in a majority of Indian organizations. In this era of social networking and high connectivity, it is extremely important to maintain a reputation or an image of the organization. One wrong act by an employee or an organization can cause havoc for the organization. It can severely tarnish the brand image and can result in loss of reputation and eventually loss of business for the organization. It has become extremely important for organizations to designas well as communicate a business ethics policy to all the stakeholders. Along with that, ethics training for all the stakeholders of the organization has become extremely important to inculcate and propagate the culture of ethical conduct. An integrated model for imparting business ethics training has been designed for Indian organizations. This model, whenimplemented in the organization will cater to all the issues and concerns related to ethics training, therebyreducing the chances of unethical behavior in employees. This has a potential to improve not only the organizational environment but the society as a whole.

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