

Growing Importance of Professionalism & Ethics

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Disclaimer

The subject of Ethics is a very personal and a highly subjective matter. It is possible that each circumstance and situation be unique and an action can be termed as morally correct or incorrect solely depending on the situation.

The presenter has shared his personal views on professionalism and ethics.

Topics for discussion

- Have we reached the bottom of pyramid in India?
- Emerging Trends on Ethics
- The Concept of Ethics
- The CISCO & Siemens Case Study

Have we reached the bottom of the ethics pyramid in India?

- Keeping your job
- Meeting your financial obligations
- Meeting quarterly earnings targets
- Upholding brand and reputation
- Advancing your career
- Ensuring financial success of company
- Increasing shareholder value
- Innovating
- Expanding globally

“Take corruption out of the morning papers and we will have nothing to read,” said Bijoy Venugopal on the IPaidABribe. Take it out of prime-time television and our anchors will have nothing to scream about, take it out of our sports and we will have nothing to play for, take it out of politics and we will have anarchy.” Global Post

Unique India specific cultural challenges

- 15% of our population is not literate, 30% lives below the poverty line, high rate of unemployment/ jobless growth,
- Hard coded religious, caste and belief systems at play across 28 states and 7 union territories
- Linguistic and traditional practices related to marriage, life style and rituals such as dowry system
- Young productive age profile leading to tendencies of becoming a millionaire overnight
- Favour and lobbying culture for jobs, admissions, approvals, etc. Corruption is part of social psyche and has come to be accepted as a given in business dealings to avoid administrative bottlenecks
- Low salary and wages in government departments encourage public servants to accept bribes for quick favours or ignoring wrong doings

Emerging trends on unethical conduct

- Three most reported forms of misconduct
 - Bribes to public officials **77%**
 - Delivering goods not up to specifications **79%**
 - Bribes to clients **79%**
- Three least reported forms of misconduct:
 - Personal business on company time **38%**
 - Internet abuse **42%**
 - Inappropriate social networking **49%**

*Our Society at large is inflicted with a variety of ethical problems such as drug and alcohol abuse, employee theft, conflict of interest, quality control issues, discrimination in hiring and promotion, misuse of proprietary information or IP theft, abuse of company expense accounts, employee lay-offs, misuse of company property/assets, corruption, financial reporting frauds, sexual harassment and such other evils. **Such wrong doings are a result of ignorance, greed, peer pressures and evil desires. We have reached a nadir where - Individuals and Businesses have to make a choice. The choice must be backed by accountability and justice.***

Original Reference: National Survey on Business Ethics 2012 by the Ethics Resource Center

Excessive pressure - A key risk factor

- **Impact of Excessive Pressure:** Public listed entities tend to have larger revenue aspirations as they are closely scrutinised for performance and earning guidance. Higher revenue leads to greater public glare which results in stress.
- **Stress boosts misconduct.** The National Survey on Business Ethics 2012 by the Ethics Resource Centre suggests that:
 - **16 %** of workers at Fortune 500 companies felt that others pressured them to compromise standards in their job, compared to 13 percent at all companies in the U.S.
 - **27 %** of Fortune 500 employees who watched the stock price throughout the work day said they felt pressured to break the rules.
 - **90 %** of Fortune 500 workers who felt pressured said they observed misconduct on the job – twice the observed misconduct rate among those who didn't feel pressured to compromise standards.
- The **COSO study on financial reporting frauds** reveals that the root cause of financial reporting frauds were the revenue performance incentive linked remuneration of CEOs and CFOs forced them to window dress their accounts.

The concept of ethics

- It is solely about not causing harm to others?
- Follow what everybody does as majority is always right
- It is only about complying with the law?
- Is it about religion?
- Is it about feelings and conscience?
- Is it about developing the most comprehensive Code of Conduct?

One word definition on ethics is “reciprocity”;

*“Do not do unto others
What you do not want to be
done to you”*

Ethics in general is study of standards of human and business behaviour:

- How we behave...
- What standards we hold...
- How we treat our relationships...
- How we treat each other...
- How we act...
- How we take decisions on matters relevant to our family/ professional/ business engagements...
- How we structure our business organisations and ways of doing business...
- How we structure our society...

“So, at Berkshire, let’s start with what is legal, but always go on to what we would feel comfortable about being printed on the front page of our local paper, and never proceed forward simply on the basis of the fact that other people are doing it.”



*Legally we may be allowed to behave in ways that are not ethical. We are allowed to conduct ourselves in ways that we would not like to see others doing to us. **Legal is about what we can get away with. Ethical is about what is right. The spirit of the law sometimes looks very different than the letter of the law.***

Why Good Ethics is equal to Good Business

- Unethical practices increase the transaction costs - so many examples of launch of poor quality products especially in the automobiles sector Ford, Toyota, etc.
- Ethics encourages you to take a long term view - Nexen Inc winning off shore contracts in the most corrupted regions globally
- Ethics gives you peace of mind and soul
- Ethics breeds faith, quality, resilience, sustainability and perseverance
- Unethical practices lead to eventual disrepute and severance of best of relationships – clients, employees, vendors and even family members
- Breach of Ethics is expensive: Misconduct is expensive. Employees who break the rules hurt the morale, reduce work efficiency on account of anxiety and expose the company to legal liability. If misconduct is serious it may lead to reputational damage, loss of confidence, inability to attract capital, fall in stock prices and even closure of businesses.

Some winning examples - HP

Our basic principles have endured intact since our founders conceived them. We distinguish between core values and practices; the core values don't change, but the practices might. We have also remained clear that profit - as important as it is – is not why the Hewlett Packard Company exists; it exists for more fundamental reasons – John Young, Former CEO, Hewlett-Packard, quoted in the Book “Built to last”.

Some winning examples – Honeywell

Honeywell's Three R's under the ethical behaviour model, every employee has the following responsibilities:

- Recognize an issue or situation
- Raise the issue or situation to the appropriate level
- See them through to Resolution

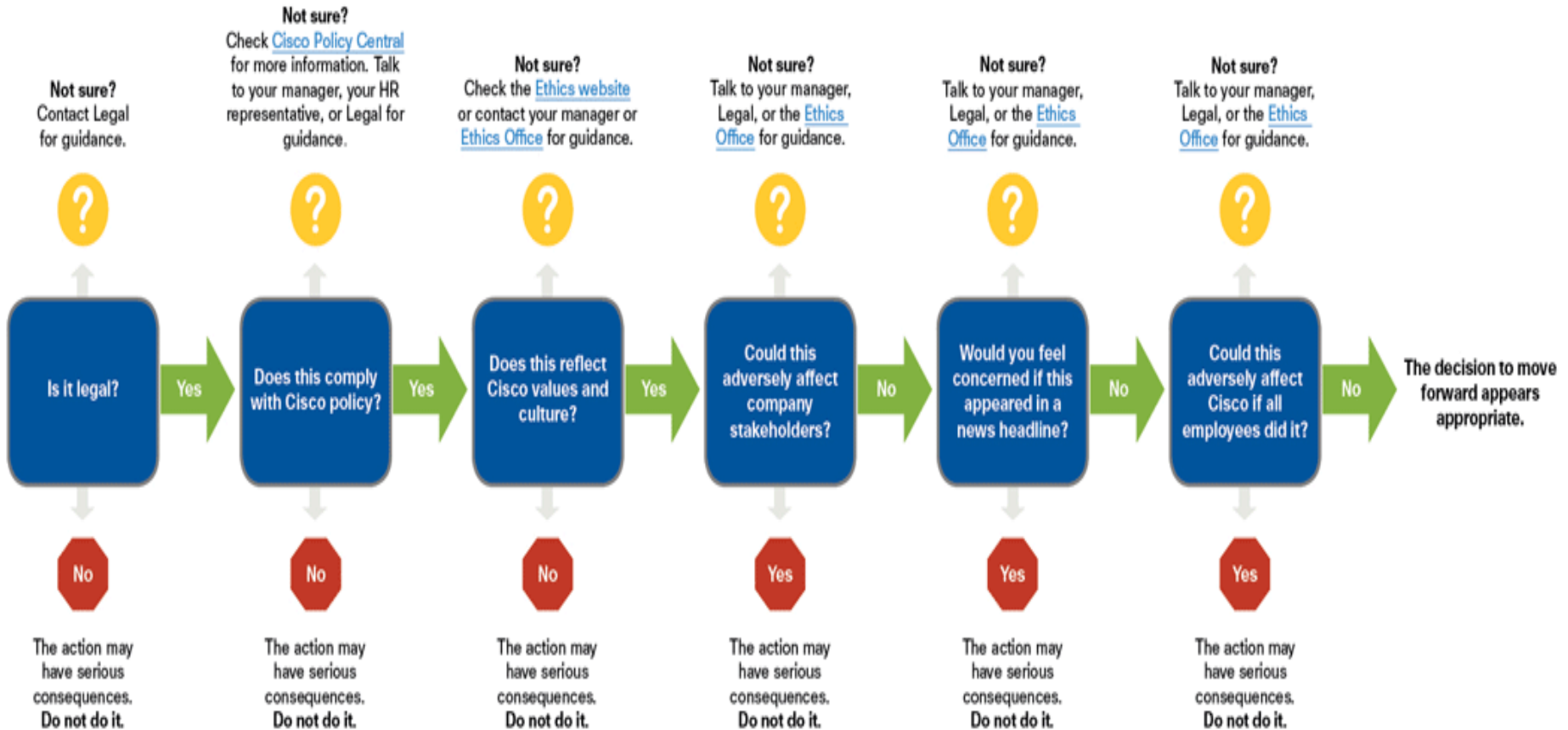
The company promotes the concept of self-governance

Some winning examples – Cisco

“Ask Yourself”- Ethics Decision Tree

This Decision Tree can be a useful tool when you are faced with a difficult decision.

Ask yourself:



Some winning examples – Siemens AG

How Siemens cracked down on corruption & what India Inc can learn from it

- [Siemens](#) AG, the 73 billion giant that till recently sanctioned bribery and corruption as business culture? Investigations between 2003 and 2008 revealed the German firm made 4,283 illegal payments totalling \$1.4 billion for 332 projects from 2001 to 2007. Thereafter, Siemens paid up \$1.6 billion in fines and fees to US and German authorities, the most ever by a company, for its world wide web of bribery that touched Bangladesh, China, Israel, Russia, Venezuela and Vietnam, among other countries.
- The Tata group, actually, is beginning to study Siemens. "We are sharing our new compliance programme," reveals Neville Gandhi, regional compliance officer, Siemens. "The Tatas want to implement a structured initiative like ours."
- After the corruption scandals mauled its reputation, Siemens AG is in the throes of a remarkable clean-up initiative that is going beyond the usual signing of codes of conduct, posturing and good intent. It is now being seen as a global case study on how to run a clean corporation.
- "The reorganisation and remediation efforts of Siemens have been extraordinary and have set a high standard for MNCs to follow," Steven Tyrrell, chief of the fraud section in the US Department of Justice (DOJ), said in a testimony to the district court in Washington DC. This was in December 2008, the early days of the clean-up.
- Since then, Siemens has put in place an array of anti-corruption processes, checks and balances, and training, perhaps unparalleled for a company of its size and reach. "We have robust new control systems in all our worldwide businesses, backed by a professional compliance organisation," says [Peter Solmssen](#), member of the managing board and general counsel, Siemens AG.
- Over the past few years, a painstakingly crafted internal control remediation (ICR) process has put in place at least 103 controls imperative to plug deep systemic flaws within Siemens AG and its subsidiaries. It has 360,000 employees in 190 countries. "In less than a year, 200,000 employees have undergone extensive compliance training," says Solmssen.
- "We have also added a compliance component to the bonuses of top managers." Solmssen, a former general counsel of General Electric, was appointed in 2007 to wipe the company clean of its corrosive ways. He now steers a compliance network of 628 officers, 27 in India, the most for a global firm.

Some winning examples – Siemens AG

- It's this learning and the bevy of tools emerging out of the gut-wrenching Solmssendriiven reforms that the Tatas, and several others, are eager to tap into. The demand is so high that Siemens AG is discovering a revenue stream in helping set up similar control mechanisms for companies of all hues.

BRIBERY AS A PRACTICE

- The Tatas, Siemens officials say, is excited about the latter's 'business partner compliance' tool. This is an elaborate online tool that virtually strips a potential partner down to brass tacks, profiling him or her, or an entity, under clearly defined risk categories, before taking them on board. It was a virtual army of partners of Siemens, over 2,700 consultants worldwide, who bribed their way through contracts.
- "Earlier, business partner appointments were random," says Gandhi. In fact, many were taken on for their ability to swing deals. However, it wasn't always like this. The 160-year-old company, actually, had a strong moral mien in its formative years. But World War II and its aftermath changed its fortunes for the worse.
- The Marshall plan for the reconstruction of Europe tilted the scales heavily in favour of American companies. Faced with stiff competition, Siemens gradually slipped into deploying unfair means to stay afloat, bag business and protect jobs.
- "Actually, it wasn't as grim as was made out. I think we were led up the garden path by the sales teams," says Arun Talwani, a Siemens veteran who spent several years in Nuremberg with the company during the 1950s. (Talwani passed away a few days after this interview. He was 81.)
- As the years passed, the company got deeper into the corruption quagmire and 'Nutzliche Aufwendungen', or NA-meaning 'useful expenditure', a companywide euphemism for bribes-came into vogue.
- "The costing of projects factored in this ubiquitous NA," explains Talwani. "It was methodical." When Germany signed the OECD convention on combating bribery in 1999, it launched a 'paper programme' on anticorruption.
- This was similar to the sterile codes many Indian companies swear by. CEOs allow unsavoury practices even as they talk of zero tolerance to corruption.
- The court filings made by the US DOJ and the [Securities and Exchange Commission](#) (SEC) are stark in their revelations on Siemens' brazen ways.

Why there is growing importance of Professionalism and Ethics?

- There is a global and local awakening people against unethical practices adopted by politicians, journalists, doctors, auditors, lawyers, manufacturers, food and beverages, etc.
- Public outcry, social media, RTI and regulators – it means there is no place to hide.
- Consumers look at ethics when choosing a brand, supplier or service. Having a good ethical reputation can be what sets a business apart, and when it comes to ethics, reputation is everything. “Brand boycotts” have become order of the day.
- The [13th Annual Edelman Trust Barometer](#) clearly demonstrates the impact financial scandals have had on public trust. When asked about the banking industry, the UK scored just 29% in overall trust – a number considerably lower than the US, Canada, China and Australia. Once a company’s brand is damaged by ethical scandals, it can be very difficult to re-build the trust of existing consumers and even more challenging to attract new ones. Additionally, a lapse in reputation can leave a business open to attack from competition.

The Ethics Equation is simple - Reputation > Profit

Inner Peace > Social status