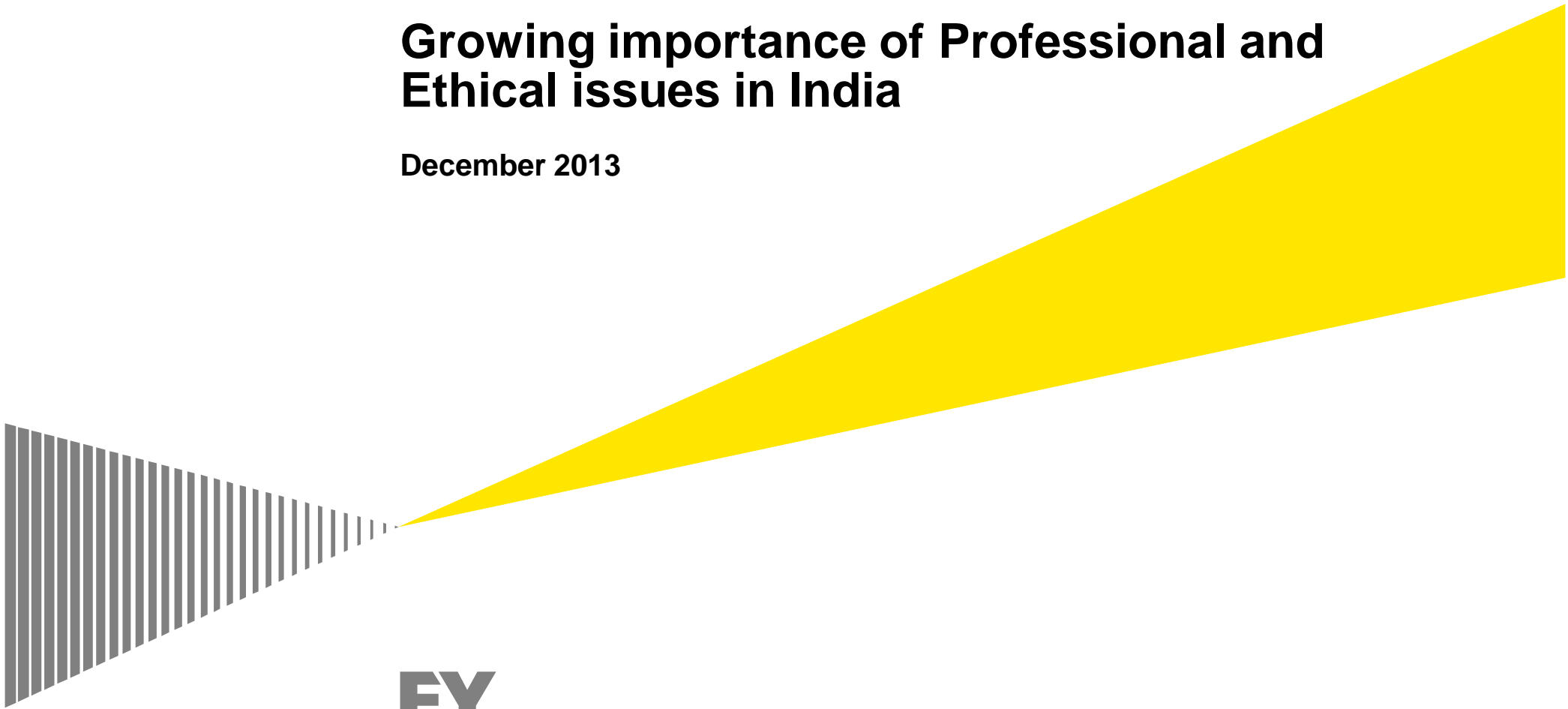


# Growing importance of Professional and Ethical issues in India

December 2013



# Agenda

- 1 Emerging trends in Unethical conduct
- 2 Concept of Ethics
- 3 Need for better Corporate Governance
  - a Code of conduct
  - b Whistleblowing policy
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- 4 Learnings from Seimens case study
- 5 Principles of admirable business ethics



# Emerging trends in Unethical conduct

# India Inc voicing its opinion

These days, bribery is in many cases regarded as a norm rather than an evil. This is eroding the country's very fiber. The Government will have to be proactive in handling such cases to prevent further damage to the economy and Indian citizens.

-A Foreign MNC

Automation of all procedures or processes involving interface with the Government is the ideal it needs to focus on. Doing away with person-to-person interface (to the extent feasible), especially for approvals, services, licenses, etc., would greatly reduce the scope for corruption.

-An Indian MNC

The tone at the top is extremely important to ensure awareness and compliance with anti-bribery and corruption issues. Serious action on reported instances of bribery and corruption and wide publicity of such actions across organizations are other effective deterrents.

-A UK based Foreign MNC

Bribery seeps in slowly into the culture of an organization. If it decides not to resort to bribery, it can keep its business going, but its profit will be based on its efforts.

-An Indian MNC

**Source: EY survey on Bribery and Corruption in India**

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# Top five factors affecting Bribery and Corruption

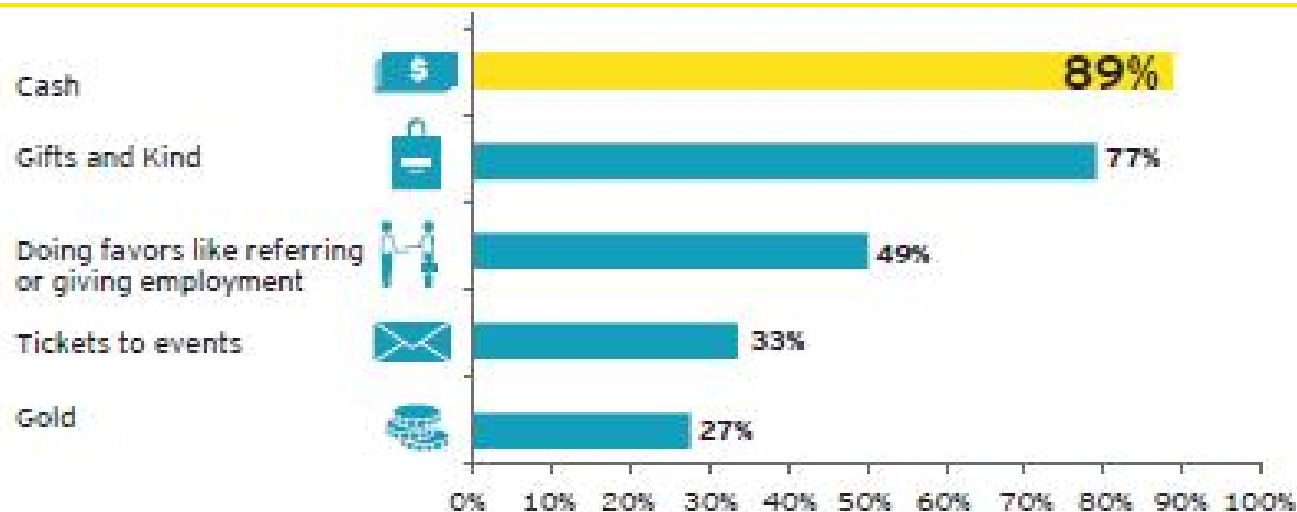
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- 1 Weak Law enforcement
- 2 Numerous Government touch points
- 3 Complicated taxes and licensing system
- 4 Lack of will in making an effort in getting permissions the right way
- 5 To get unfair advantage in business

*Source: EY survey on Bribery and Corruption in India*

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# Innovative ways of paying bribes



Cash continues to be the most preferred mode of paying bribes

## Innovative ways of paying bribes

Paying high salaries to selected employees with an understanding that the excess amount will be used to make improper payments

Routing improper payments through payment facilitators (existing vendors or material suppliers), who pass on the cash to liaising agents, keeping themselves out of the loop

Paying a periodic performance bonus to vendors assisting in procurement of licenses

Presenting gift cards (prepaid cash cards issued by banks) to Government organisations with whom organisations frequently interact

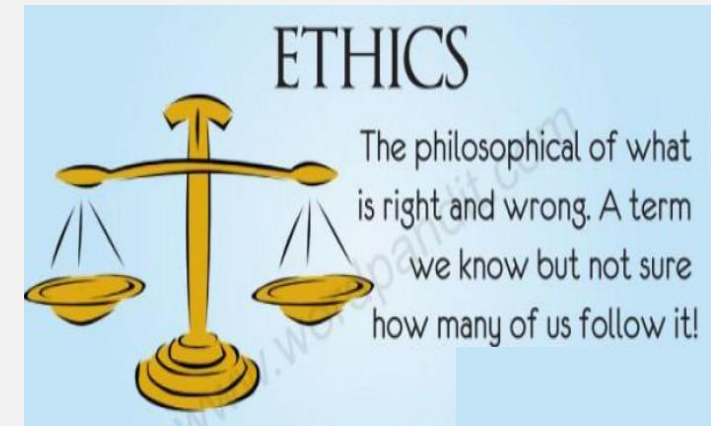
**Source: EY survey on Bribery and Corruption in India**

# Concept of ethics

# The concept of Ethics

## What does ethics mean to you?

- Is it solely about not causing harm to others?
- Follow what everybody does as majority is
- Is it 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?



“Ethics is two things.

- First, ethics refers to well-founded ***standards of right and wrong that prescribe what humans ought to do***, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues.
- Secondly, ethics refers to the ***study and development of one's ethical standards.***”



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# Why there is growing importance of ethics?

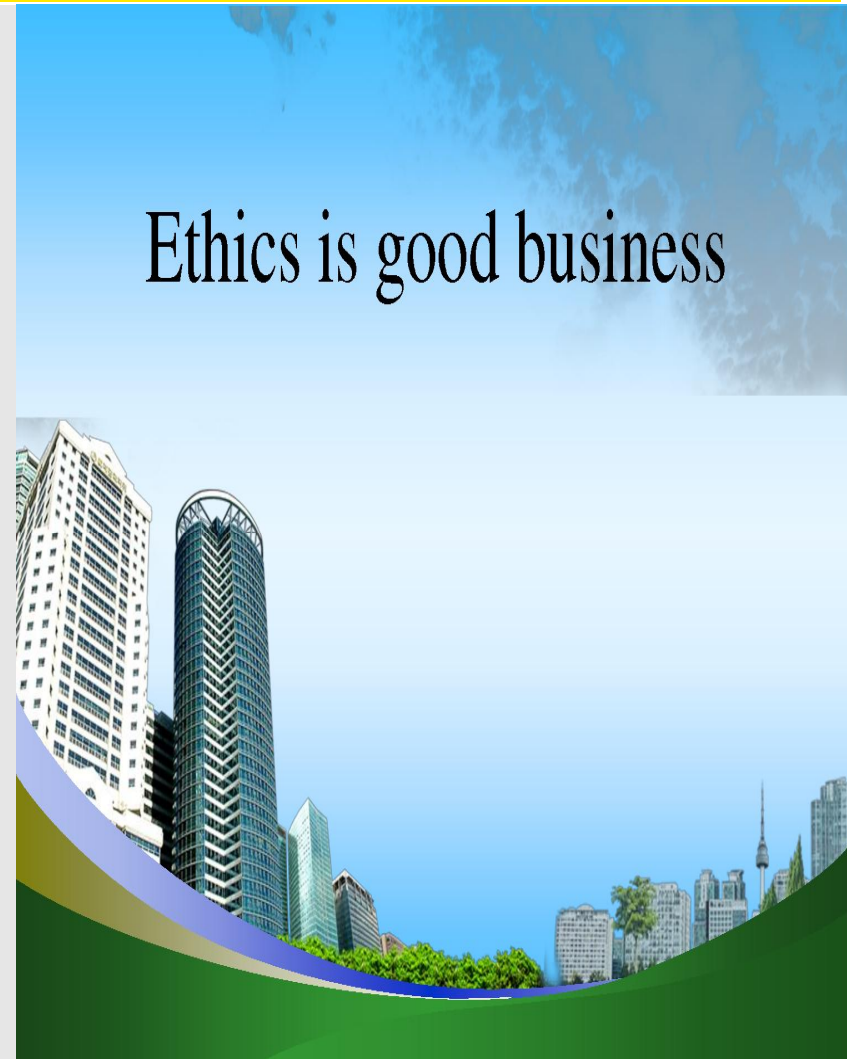
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- There is a **global and local awakening** people against unethical practices adopted by politicians, journalists, doctors, auditors, lawyers, manufacturers, food and beverages, etc.
- **Public outcry**, social media, RTI and regulators - it means 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.
- Once a company's brand is damaged by ethical scandals, it can be very **difficult to rebuild 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.

➤ ***If you have integrity, nothing else matters. If you don't have integrity, nothing else matters.*** -- Alan K. Simpson

# Why good ethics is equal to good business

- Ethics encourages you to take a *long term view*
- 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*
- Unethical practices *increase the transaction costs*
- **Breach of Ethics 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.



# Need for better Corporate Governance

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# Corporate Governance

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- Corporate Governance is concerned with holding the ***balance between economic and social goals*** and between individual and communal goals.
- The corporate governance framework is there to ***encourage the efficient use of resources*** and equally to require accountability for the stewardship of those resources.
- The aim is to ***align as nearly as possible the interests of individuals, corporations and society***

- Sir Adrian Cadbury

# Code of conduct

A code of conduct is **set of written guidelines** about **how an employee** within an organization **should behave in the workplace** and how the employee should **treat others** within the company.

## Why is a Code of Ethics important?

- A Code of Ethics is important on many levels. **It sets the "tone from the top" of the company's culture.**
- Business owners find themselves in difficult situations because of employee misconduct. Code of Ethics" is an effective tool which is to be signed by all employees. **This serves as a reminder that we are all accountable for our own actions and ensures that any breach of company ethical policies are enforceable.**
- **Introduction of the Bribery Act 2010 requires organisations to put "adequate procedures"** in place to prevent bribery, and make sure that your ethics policy is communicated internally and externally, **is adhered to and well-documented.**



## The benefits of a code of conduct :-

**Creating an agreed way of behaving and operating** for the entire company;  
**Improved company performance** when linked to the company's business and strategic objectives;  
**Good company culture** – employees know what is expected of them in terms of behaviour;  
**Good communication** with employees having a framework to look up when faced with difficult decisions;  
**Having a set of values** – having a sense of what the company values are and what the company stands for.

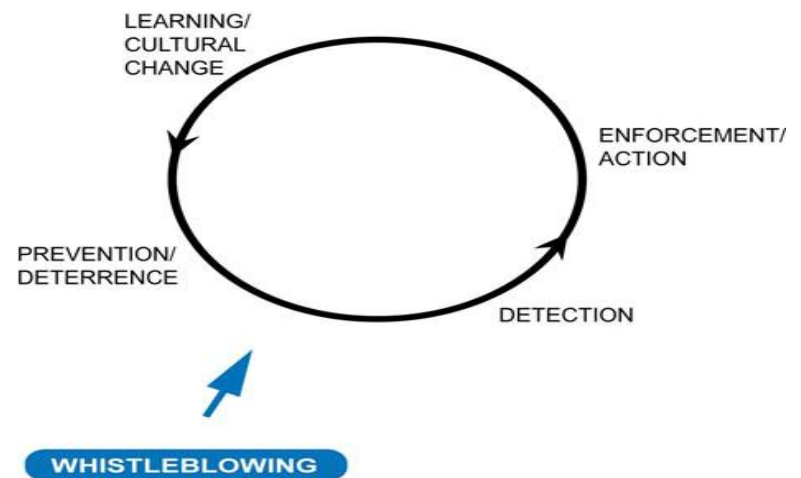
# Whistleblowing

## Meaning:

- An important **aspect of accountability and transparency** is a mechanism **to enable employees to voice concerns or report about possible irregularities/governance weaknesses/malpractices** in the organization in case they experience or come across such issues that are directly/indirectly detrimental to the interests of the organization
- The introduction of the Bribery Act has given whistleblowing hotlines a starring role in the campaign to promote good corporate governance and ethical trade. Not only can whistleblowing hotlines protect you in a court of law by demonstrating you have the aforementioned “adequate procedures” in place to prevent bribery, but they clearly demonstrate to your employees, clients and peers that you are committed to doing business in an ethical manner and to eradicating misconduct.

## Role of whistleblowing in the fight against corruption:

- **Insiders** are among the few people who are able **to report** cases of corruption (past or ongoing) and **identify the risk of future wrongdoing**.
- By helping to detect corruption cases, **whistle-blowers play a critical role in converting a vicious cycle of secrecy into a virtuous cycle (see figure)**.
- Detection of corruption is a pre-condition to initiate related investigations and prosecution. However, only if corruption cases are effectively prosecuted can a culture of corruption change.



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# New Companies Bill takes ethics to a new level in India

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- India's Companies Act **mandates increased corporate transparency and accountability** which will bring **reforms in enforcement measures and endeavours to strengthen corporate governance** and provides for provisions to ensure ethical and vigilant activities of directors and other professionals in the company.
- Law has addressed the concerns caused by some of the scams like vanishing firms, the IPO imbroglio and Satyam case and features measures to prevent any such recurrence by bringing in a paradigm shift by providing for **more stringent norms, disclosures and increased penalty**.
- Some of the provisions **are mandatory internal audit** for specific companies, provision for rotation of auditors, increased role of audit committee, restriction on providing certain specified services by auditors and restricting the financial year to April to March without any provision of extension, place more responsibilities and accountability on company management.
- The Companies Bill, 2009 (the Bill), as passed by the Rajya Sabha on 8 August 2013 has introduced the concept of 'Corporate Social Responsibility' (CSR) into Indian company law.

## Learnings from Seimens case study



# Some winning examples

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

- ▶ After the corruption scandals mauled its reputation, 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.
- ▶ Siemens AG is in the throes of a remarkable clean-up initiative and is now being seen as a global case study on how to run a clean corporation. This **reorganisation and remediation efforts** of Siemens which has set high standards for MNC to follow has been acknowledged by 'Steven Tyrrell', chief of the fraud section in the US Department of Justice (DOJ).
- ▶ Since early days of clean up, 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. 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.
- ▶ Solmssen a former general counsel of General Electric, was appointed in 2007 to wipe the company clean of its corrosive ways **has added a compliance component to the bonuses of top managers to drive compliance across organisation**. He now steers compliance network of 628 officers, 27 in India for Siemens AG.
- ▶ It's this learning and the bevy of tools emerging out of the gut-wrenching Solmssen driven 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.

# Principles of admirable business ethics

# Principles of Business Ethics

- One of the most important attributes for business success, is the distinguishing quality of practicing admirable business ethics.
- Business ethics become the heart and soul of the company's culture and can mean the **difference between success and failure**.

## Be Trustful

- **Recognize customers** want to do business with a company they can trust;
- Trust defined, is **assured reliance on the character, ability, strength, and truth of a business**.

## Keep An Open Mind

- For continuous improvement, the leader of an organization must be **open to new ideas**.
- **Ask for opinions and feedback** from both customers and team members and your company will continue to grow.

## Meet Obligations

- Regardless of the circumstances, **do everything in your power to gain the trust of past customer's** and clients, particularly if something has gone awry.
- Reclaim any lost business by **honouring all commitments and obligations**.

## Have Clear Documents

- **Re-evaluate all print materials** including small business advertising, brochures, and other business documents
- Make sure they are **clear, precise and professional** and are **not misrepresent or misinterpret**.

## Become Community Involved

Remain involved in community-related issues and activities, thereby demonstrating that your **business is a responsible community contributor**. In other words, stay involved.

## Maintain Accounting Control

**Gaining control of accounting and record keeping** allows you to end any dubious activities promptly.

## Be Respectful

- **Treat others with the utmost of respect**.
- Regardless of differences, positions, titles, ages, or other types of distinctions, **always treat others with professional respect and courtesy**

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