

# **LIVING THE BUSINESS ETHICS**

# What ethics means to most people ...

Ethics has to do with what my feelings tell me is right or wrong

Ethics has to do with my religious beliefs

Being ethical is doing what the law requires

I don't know what the word means

Ethics consists of the standards of behavior our society accepts

# What ethics actually is ...

- Ethics is principles or standards governing the conduct of communities, groups, organisations and individuals.
- Ethics is more than morality which is primarily concerned with general outcomes of good and bad, or right and wrong.
- It is also about self-restraint
  - ***Not doing what you have the power to do*** An act isn't proper simply because it is permissible or you can get away with it.
  - ***Not doing what you have the right to do*** There is a big difference between what you have the right to do and what is right to do.
  - ***Not doing what you want to do*** An ethical person often chooses to do more than the law requires and less than the law allows.

# Does ethics correlate positively with company's profitability?

“Almost all the respondents said they are willing to pay more for shares of companies with ‘good’ governance, and in the case of Indonesia, they said, a 27% premium on the average is appropriate for such a company”

*Robert Felton – McKinsey & Co*

“There is significant evidence from a large and growing body of academic research that there is at minimum a neutral, and quite likely a positive relationship between responsible corporate practices and financial performance”

*Sandra Waddock – Boston College*

# Unethical behavior may include the following ...

- Breach of international or local laws
- Breach of organisation's values or standards of conduct
- Deceptive behaviour
- Intentional breaches of promises or agreements
- Breaches of minimum standards relating the treatment of employees
- Breaches of environmental laws or standards
- Non disclosure of material information during proposals or negotiations

# The risk of being unethical ...

- Damage the reputation of the organisation
- Expose the organisation to litigation from affected parties
- Expose the organisation to civil and criminal sanctions from the regulators
- Expose the BOD to risks of criminal prosecution
- Create a culture within the organisation that does not value ethical behaviour
- Lead to further unethical decisions to continue or cover up the initial unethical choice

## Promotion of good business ethics can:

- Reduce costs
- Increase long term profits
- Increase confidence in business dealings
- Make choices that are not compromised by past
- Encourage others
- Improve relationships with colleagues and business partners

# What would you do if ...

- A government official, who is also one of your big clients, called you regarding a vacant position in your company. He asked whether you could help his son in the recruitment process.
- A charity foundation owned by one of your shareholders asked your company to give a donation for their charity project. Unfortunately, there's a policy in your company that prohibits you from providing donations unless it is related to the company's service area.
- You operate an automotive dealer company. In dealing with the vehicle validation process (e.g. new-vehicle documents, license etc) you're using an agent. Recently you discovered that in the course of obtaining the above validation, your agent bribes the government official.

# Why is it difficult to cultivate ethical behavior in Indonesia ...

- Lack of sound regulations, particularly in relation to Good Corporate Governance, accounting standards/practice, capital market etc.
- Inadequate law enforcement
- Resistance to change: attitude that “This is the way things are done around here”



Comfort  
Zone

Apathy

Frustra-  
tion

# How about organization culture?



- Well-written code of conduct
- Sound policy/SOP
- Awards & certifications
- Good CSR programs

- Highly authoritarian, hierarchical, centralised
- Comfort zone
- Low individualism, “communal” culture
- Preserve social harmony
- Short-term result oriented
- Parochial culture
- Pragmatic behaviour

# Developing ethical culture within the company ...

- Define values to which the company will adhere
- Obtain political support from *internal stakeholders*
- Start with the tone at the top
- Develop a robust internal control system
- Apply a zero tolerance policy, however manage the change process carefully
- Provide rewards as necessary

# Recent examples of corporate failures and ethics scandals

- Enron
- Worldcom
- US Congress
- HIH
- Titan