Measuring the Ethical Quotient of Corporations: The Case of Small And Medium Enterprises in India

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ABSTRACT

This paper presents an overview of issues in business and professional ethics along with the whole gamut of practical ethical problems and phenomena which arise out of specific functional areas of companies including ethics of accounting information, human resource management, sales and marketing, production, etc. A study has been carried out to measure the Ethical Quotient of small and medium size enterprises (differentiated as High Intellectual Soft Services and Low Intellectual Soft Services depending upon the industry) located in the National Capital Region of Delhi, India. The total sample was 100 working professionals in 25 SMEs and response rate was 70%. The research instrument included a two–part questionnaire with the profile of the organisation and a five-point Likert scale consisting of statements related to Organizational Ethical Standard, Employee Ethical Perception, ethical considerations towards Finance, HR, Marketing, Production and IPR.

The results indicate that companies from High Intellectual Soft Services sector such as IT, Pharmaceuticals and KPOs have scored lower on financial ethics, marketing ethics, production ethics and IPR ethics. This is alarming for the economy and needs to be addressed immediately. It is an issue of concern since Indian economy is driven by and large by SMEs especially for exports, and the High Intellectual Soft Services have shown a high growth rate. In the case of Low Intellectual Soft Services, it is the critical Financial Ethics that fall in the Low category. This is again a poor sign since it is these very ethical considerations that need to be at least medium if not high, for organisations to operate in today's turbulent times. Overall the Ethical Quotient for these organisations is in Medium range. The results are used to develop a framework called the Ethics Strategy, which incorporates concerns related to both policy and action that needs to be taken by companies so as to remove any ethical deficiencies, if they exist.

Ethical business values translated into management behaviours can make the difference between employee satisfaction and frustration—with the consequent impact on results.
Maister, 2008

ETHICS AND VALUES

A present day term, ethics are the rules or standards governing the conduct by which one lives one's life and makes all his decisions. Being Ethical means doing what is right to achieve what is good. The study and assessment of morals is Ethics. It is the character or custom by which one lives one's life. Ethics are ready reckoners of how to react to certain situations long before that situation happens. The term is employed, used, associated with sustainable development that cannot survive without it. While morality answers the question "what should I do?" ethics, for its part, answers the question dealing with “how should I do”, or better still: “how should I live within and by my company?” Ethics therefore questions not only the person, but also his environment. It questions the world insofar as relationships and exchanges are concerned. Rendered present by the intermediary of charters and obligations of sustainable development, it fully participates in the social responsibility of the company and aims at guiding its steps towards the attainment of this goal (Fray, 2007). The fact that ethics aims at improving the world and its exchanges explain as to why it touches on the professional ethics and value systems of organisations. In this frame of mind, ethics serves above all to construct the very point of view of the company, without disconnecting it for all this from its environment, but on the contrary by enabling it to create its landmarks within this environment in relation to the other players (Begley & Stefkovich, 2007).

Whether or not values and ethics are consciously employed as guides to decision making by individuals, they remain in general an important influence on the cognitive processes of individuals and groups of individuals. Values can be formally defined as conceptions of the desirable with motivating force characteristic of individuals, groups, organisations, and societies that influence choices made from available resources and means (Hodgkinson, 1978). Begley (2006) describes the influence of values within individuals as the internal psychological reflections of more distilled levels of motivation (e.g. a concern for personal interests, consequences, or consensus) that become tangible to an observer in the form of attitudes, speech, and actions. Thus, values in their various forms, including ethics, can be thought of as conscious or unconscious influences on attitudes, actions, and speech. However, it is important to note that valuation processes can involve more than ethics. Values can take different forms and can be best categorised according to their motivational grounding. Ethics, as a particular form of values, as opposed to the scholarly discipline, are normative social ideals or codes of conduct usually grounded in the cultural experience of particular societies.

The collapse of companies such as Enron, Arthur Anderson, WorldCom and Global Crossing in the USA, HIH Insurance and OneTel in Australia, Bhopal Gas Tragedy and Satyam in India and Parmalat in Italy have led to a loss of confidence by the investing public in the system of financial reporting and accountability. A major factor in this loss of confidence was the unprecedented implosion of one of the then “Big 5” accounting firms, Arthur Andersen, with the loss of 85,000 jobs worldwide and the loss of public trust in the accounting profession that accompanied it. These developments led to the promulgation of the Sarbanes-Oxley Act of 2002 in the USA and similar legislation such as the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 in Australia. The globalisation and diversification of accounting services, combined with market competition and high profile corporate collapses have drawn attention to the accounting profession and its perceived ethical standards (Ponemon, 1995; Ashkanasy and Windsor, 1997; Armstrong et al., 2003; Leung and Cooper, 2005). Commentators are now questioning whether the value systems of accounting professionals are strong enough to withstand client and economic pressures that potentially compromise professional judgement (Douglas et al., 1995; Jennings, 2004). All the above corporations share the same problem—the lack of ethics and morals. Their behaviour caused havoc for untold thousands of people. Ethics, especially in a fiduciary relationship, is of primary importance. As companies globally face issues relating to transparency, accountability and timely disclosure of material information, the concept of corporate governance and business ethics has gained significant importance.

Due to the increasing pressure to conform to ethical practices, the large companies and MNCs have started addressing the concept of business ethics more seriously than before (Harila & Petrini, 2003). It is the small and medium-size corporations that need to be closely monitored, because not only do they lack resources but also they lack the leadership to adopt ethical practices. Their mismanagement affects the ability of SME companies to incorporate responsible and ethical practices in their business operations (Joquico, 2008). Some of the characteristics highlighting SMEs in India are given below.

Governance: SMEs are often family-owned enterprises managed by family members, which creates challenges for reporting unethical conduct and managing conflicts of interest.

Fewer organisational structures than large enterprises: In their operations, SMEs rely far more on informal processes such as verbal communication than on the formal policies and procedures that structure large enterprises. They thus lack the sound organisational systems that support ethics programs in large organisations. Symptomatic of a lack of structure is the tendency to focus less on medium- and long-term planning than on immediate, day-to-day issues.

Tendency of some SMEs to remain "informal" where possible: Another factor that shapes the context of the SMEs is the dual economy of formal—legally registered—and informal sectors. For many enterprises, this distinction is not absolute; these enterprises observe some regulations while evading taxes and failing to comply with labor regulations.

Training: Lastly, SMEs invest little in training employees in areas not apparently related to technical or commercial matters.

It is against this background that the present study has been conducted in SMEs located in and around the Indian capital of Delhi.

SMES IN INDIA

Small and Medium Enterprises (SMEs) are officially defined and exclusively identified for promotion in the manufacturing sector of most national economies. The most important justification for the exclusive promotion of SMEs is their potential for employment intensity. In general, a SME generates more jobs per unit of capital investment than a large enterprise. However, there is no uniform definition of a SME in the global economy. Different countries have defined SMEs in different ways. In Japan, an SME in the manufacturing sector is defined in terms of upper limit of paid-up capital of 300 million Yen or 300 employees (Small & Medium Enterprise Agency, 2004). In South Korea, SMEs are defined as firms, which are independently owned and employ less than 300 persons in the manufacturing, mining, transportation and construction sectors (Baek, 2002). In the European Union, SMEs are defined in terms of employment and turnover/balance sheet total. To be classified as a SME, an enterprise must satisfy the criteria for the number of employees and one of the two financial criteria, that is, either the turnover total or the balance sheet total. In addition, it must be independent. There is no official definition of a SME in India (Subrahmanya, 2005). The Government of India has officially defined a small-scale enterprise under the Industries Development and Regulation (IDR) Act, 1951, in terms of upper limit of original investment in plant and machinery at Rs.10 million. But the recently introduced Small and Medium Enterprises Bill, 2005 (SIDO, 2005) has proposed a definition of a medium enterprise in terms of investment in plant and machinery in the range of Rs.50 million to Rs.100 million and proposed to revise the upper investment limit for a small-scale enterprise to Rs.50 million. If this definition is accepted, then SMEs would cover all enterprises having investment in plant and machinery up to Rs.100 million. But there is no single source of data, which provides statistics on the size and composition of SMEs in India. The Annual Survey of Industries (ASI) is the most comprehensive and reliable source of data on Indian industry covering registered factories.

ROLE AND IMPORTANCE OF SMES IN THE INDIAN ECONOMY

The Small and Medium Enterprises (SMEs) play a vital role in the industrial development of any country. The importance of the SME sector is well recognised world over from its significant contribution in gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship (Mahmood, 2008). In fact there is an increasing importance of SMEs in developing countries because of their role in economic growth and poverty reduction. SMEs are considered as an engine of growth in a prosperous and growing economy (Harvie, 2004). SMEs not only contribute to the economic development by creating employment for rural and urban population, but also provide flexibility and innovation through entrepreneurship. They are even responsible for increasing the international trade by diversifying economic activity. Their role in income generation and economic growth for developing countries is critical so much so that they are major contributors to GDP and private sector employment. SMEs provide sustainable growth, generate jobs, and help reduce poverty levels (Mahmood, 2008). SME development is pivotal for pro-poor growth because it makes possible the transition from low to middle-income status. They function as catalysts of economic change and in many developed and developing economies they have been pioneering new technologies and management methods (Spence, 2000). Thailand, Turkey, India are just a few of the developing countries that have made swift progress in encouraging and fostering their SME sector. Their contribution to the economy is summarised in Table1.

Table 1: The contribution and impact of SMEs on the economy

Important vehicle for poverty reduction through employment generation	Contribute to exports
Foster an entrepreneurial culture	Generate higher levels of competition and mobility
Fosters higher levels of learning among firms	Useful for diversification of the economy
Contribute to reducing inequalities in the economy by distribution of wealth	Provide resilience in the economy
An instrument for alleviating regional disparities in development	Flexible in production
Has the potential to be a training ground for managerial skills	A source of technological innovations in industrialised economies
Encourages rich personal relations	Promotes individual initiatives

It is therefore imperative for the future economic growth of developing countries to create and promote an environment that nurtures and facilitates the small and medium sector and enables it to realise its true potential. Institutional framework and policy specifications are important factors in helping the evolution and success of SMEs across the globe. Today, many countries have introduced schemes in diverse areas, viz., financing, technology, innovation, managerial ability, market information and developmental assistance, aimed at improving the working environment for SMEs (Webley, 2003). In India the Small Scale Industries (SSI) employ around 26 million people and are involved with the production of over 7500 industrial items with the product range varying from very simple items produced with traditional technology to high tech products. At present, the SSI sector accounts for over 90% of industrial units in the country, 40% of value addition in the manufacturing output and approximately 35% of India's exports (EXIM Bank of India, 2005)[1].

However, there are certain constraints faced by the SSI sector which include product reservations, regulatory hassles—both at the entry and exit stages, insufficient finance at affordable terms, inflexible labour markets and infrastructure related problems—like high power tariff, and insufficient export infrastructure. The policy of product reservations has restricted operation of economies of scale and greater efficiency in the small scale sector. Starting a business in India requires number of permits, even after the initiation of liberalisation programme, as compared to many other developing Asian nations. Insufficient finance at affordable terms is another challenge daunting the performance of Indian SME sector. Infrastructural bottlenecks such as transportation and communication facility along with insufficient export infrastructure increase the transaction cost of SME units in India. Problems in assessing adequate and reliable power at affordable price are other problems of Indian SMEs. SMEs and SSI face challenges related to access to finance both domestically and internationally, developing international trade linkages. Developing entrepreneurial culture and ethical business environment are also important challenges. The main underlying constraint to their growth is lack of corporate governance structure. There is generally a lack of awareness among these enterprises regarding significance of corporate governance and if there is awareness, there is a general aversion to adopting these practices because of the high cost of implementation (Mahmood, 2008).

To overcome these challenges SME development requires a crosscutting strategy that touches upon many areas. Apart from conducive policies, there is a need for simplified legal and regulatory framework, good governance, abundant and accessible finance, suitable infrastructure,

[1] www.eximbankindia.com

entrepreneurial skill development infrastructure and competitive environment (Sinha, 2005). There is a pressing need for embracing corporate governance and ethical business practices. Conducive WTO compatible policies are required for this sector to decide on various issues such as cap on capital investment, ceiling on FDI, interest subsidy, de-reservation of items, and creation of technology upgradation fund. Existence of adequate institutional framework and efficient administrative system, along with deregulation of economic activities, would facilitate restructuring of small and medium enterprises in India (Banerjee, 2005).

The small and medium scale enterprises could be defined as one entity for policy purposes, with the objective of facilitating higher investment and thereby encouraging the technology upgradation. Reservation of items should be phased out substituting with promotional support to strengthen their globalisation efforts. Reengineering the entire gamut of regulatory processes, especially at the state and local levels, with the objective of installing transparent policies would bring down the cost of investment related delays. SMEs should be encouraged to work in a cluster environment ensuring complementarities, common activities, collective goods and institutional stability. This strategy requires sector specific actions, aimed at increasing the competitiveness of the cluster, promoting networks and cooperation amongst firms. There is a need for development of a comprehensive programme for improving the technology base and strengthening of innovation culture in SMEs. Management skills are very necessary for the success of SMEs in any developing country. Strengthening National Entrepreneurship Development Board, devising comprehensive plan for promotion of rural entrepreneurship, fostering close linkages with premier institutions engaged in management and entrepreneurial training may be considered on priority basis. Access and integration into local, national and global markets require substantial investments. Partnerships between various stakeholders, viz., Government, society and industry, foster such investment (Sinha, 2005).

IMPORTANCE OF AN ETHICAL BUSINESS ENVIRONMENT IN SMES

Business ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment. In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions in SMEs (known as ethicism) is increasing[2]. Simultaneously, pressure is applied on industry to

[2] http://www.hero.ac.uk/uk/business/archives/2003/ethics_the_easy_way5043.cfm

improve business ethics through new public initiatives and laws (e.g. higher UK road tax for higher-emission vehicles).[3] Businesses can often attain short-term gains by acting in an unethical fashion; however, such antics tend to undermine the economy over time. SME Owners and managers can often encounter ethical challenges in the form of questions like *Do I meet a deadline with my customer and ship out products even though I know there is a possibility they might be faulty? Do I openly discuss my difficulties with the customer? How do I ensure that my employees do their work properly? How do I deal with my employees' desire to balance their work obligations with their personal ones? How do I respond when securing an important contract seems to require the payment of a kickback? Do I delay payment to suppliers when my cash-flow is currently limited?* There are several ethical issues related to the various business processes of SMEs (Torzewski, 2004). There is an overlapping of business ethics with the philosophy of business, one of the aims of which is to determine the fundamental purposes of a company. If a company's main purpose is to maximise the returns to its shareholders, then it should be seen as unethical for a company to consider the interests and rights of anyone else (Friedman, 1970). Corporate social responsibility or CSR is an umbrella term under which the ethical rights and duties existing between companies and society is debated. There are also issues regarding the moral rights and duties between a company and its shareholders that is fiduciary responsibility, stakeholder concept vs shareholder concept. Ethical issues concerning relations between different companies like hostile take-over, industrial espionage, leadership issues concerning corporate governance, political contributions made by corporations, law reform such as the ethical debate over introducing a crime of corporate manslaughter, and the misuse of corporate ethics policies as marketing instruments all plague the management of SMEs. The desire to build trusting internal and external relationships, as well as growing pressures from wider society, should lead SME owners and managers to consider to what extent ethical values and principles guide their business behaviour. What does 'doing the right thing' mean? While laying down the definitions for SMEs, business values may include customer service, quality, innovation, reliability, efficiency and value for money. Ethical values for SMEs may include integrity, honesty, openness, respect, fairness and responsibility.

[3] http://news.bbc.co.uk/1/hi/uk/6095680.stm

SMEs are characterised by informal understandings and shared expectations among the workforce of how business is done. Any values and ethical principles will usually be implicit rather than formally expressed through ethics policies, codes and programmes that are familiar in large companies. The ethics of a small organisation is typically influenced by the owner-manager or managing director (Harrison & Freeman, 1999). Through their very visible presence, their personal attitudes and behaviours will set the tone of the business and have the potential to signal to employees how seriously ethical behaviour is to be taken in the organisation. SMEs are not typically able to devote as many resources to building an ethical workplace culture as larger organisations. However, there are advantages to having a somewhat more formal ethics policy in place. Firstly, it reinforces and makes explicit the values and principles that are part of the organisational culture, so allowing them to be communicated to stakeholders. Secondly, a policy will provide guidance and support to employees on how they are expected to conduct their business. Table2 sets out some benefits of an explicit ethics policy.

Table 2: Impact of presence of Ethical Values

Increased employee loyalty, higher commitment and morale as well as lower staff turnover	Attraction of high-quality staff
Enhanced Reputation (customers and suppliers)	More open and innovative culture
Decreased cost of borrowing and insurance	Generation of good-will in the communities in which the business operates

RATIONALE OF THE STUDY

Traditional business standards have begun to fade. Right over wrong and our sense of values and fair play are more frequently superseded by the urge to take shortcuts to monetary success where possible. The justification seems to be; if no one catches us, it did not happen. In the increasingly monitory focused marketplaces of the twenty-first century, the demand for more ethical business processes and actions is required. They are important because others will copy them from us. In today's globalised economy business ethics act as mediators while dealing with international and cross-cultural systems and societies. Laying down acceptable and unacceptable behavior in conducting business helps in fast delivery of business without taking the legal route. It is due to these reasons it becomes important to conduct this study.

REVIEW OF LITERATURE

Traditionally, most of the literature on business ethics has focused on larger companies and multi-national corporations (MNCs) with the assumption that business ethics in MNCs is the same as business ethics in SMEs (Steel & Webster, 1992). However, there have been contributions to better understand business ethics in SMEs from a number of scholars such as; Storey, 1985; Shleifer & Vishny, 1997 and others (Mayer, 1997). It is suggested by the work of those that business ethics as enacted in MNCs is far different than for SMEs; this is not just because of their differences in size but also in nature, because unlike MNCs, in SMEs, control of the company and the decisions depend on personal decision making of a single person (Gompers et al., 2003; McNulty & Pettigrew, 1999).

Given the fact that most of the SMEs are family-owned businesses and in South Asia region, family-owned businesses are an important component of the economy (Rana, 2003), there are several issues that plague them, including absence of clear policies and long term planning, lack of outside opinions on strategic direction, not clearly defined benefits and compensation for family members, obligation to hire family members who are not qualified or lack the skills and abilities for the organisation, not having a succession plan and access to finance and equity (Mahmood, 2008). SMEs, because of their flexible structure are in a better position to forge international linkages. In many countries, SMEs have been able to forge stronger linkages with domestic export-oriented large farms. However, it is now important that SMEs develop linkages with Multinational Corporations (MNCs), perhaps entering through subcontracting linkages or supply the finished products (Zaman, 2008). Developing countries with cheap labour force can be particularly useful for this partnership. These international linkages are important as they give access to International Markets, access to latest technology, access to international investors and higher exports which leads to greater exposure. International investors are often reluctant to invest in developing countries because their institutions do not provide an adequate level of security for their investment particularly in terms of enforceability of legal rights and governance framework. MNCs and international investors will be willing to forge partnership with SMEs only when their level of confidence and trust increases regarding transparency and governance of the local partner (Hankinson et al., 1997). In other words, how the firm is being governed is critical to raise investment.

For SMEs, corporate governance is about the respective roles of the shareholders as owners and the managers. It is about establishing rules and procedures to manage and run the enterprise. Corporate Governance is also about setting up a system of checks and balances to prevent abuses of authority and to ensure the integrity of financial statements. Good governance does not guarantee business success, but it is one of the main factors which can help in long-term success. The symptoms of poor governance may not be immediately visible, and in the long-run it can cause serious problems (Mahmood, 2008). In case of SMEs, governance frameworks determine the capacity of small firms to raise capital. Financial markets are faced with the problem of information asymmetry, i.e. the difficulty of evaluating the quality of the firm's management framework and protection against moral hazards; hence corporate governance is important (Rana, 2003). It provides resources to the firms and also helps them to organise these resources. Other key benefits to SMEs include better and stronger system of internal control and accountability, transparency, strategic vision through participation of outside experts on the board, owner to focus more on strategic directions and expansion of business than day to day operations and ability to attract better managers. Corporate governance can, therefore, be viewed as a mechanism to mobilise and combine resources and competences (Mahmood, 2008).

Directors of small and medium sized enterprises (SMEs) will not deny the importance of good, trusting relationships with customers, employees, suppliers and the community (Spence, 2000). The success of their company depends on it. Also, due to requirements higher up supply chains, smaller firms are increasingly asked about their social and environmental credentials during tendering processes with large corporations. SME owners and managers will also recognise the importance of trust and ethics in business when on the receiving end of unethical business practice; for example, when suppliers deliberately do not meet agreed terms and conditions etc.

Ethics is not just about doing what is legally right—more important; it is about what is morally right. Unfortunately, we live in a time when traditional business standards have begun to fade. Right over wrong and our sense of values and fair play are more frequently superseded by the urge to take shortcuts to monetary success whenever possible. The justification seems to be; if no one catches us, it did not happen. In the increasingly conscience-focused marketplaces of the twenty-first century, the demand for more ethical business processes and actions is increasing. Simultaneously, pressure is being applied to the industry to improve business ethics through new public initiatives and laws. Companies need to understand that only by maintaining the strongest possible code of ethics they would be able to attract the best employees and capital on the most favorable terms. This study has been undertaken to measure the Ethical Quotient of SMEs in India.

OBJECTIVES

- To study the areas of ethical concern in Small and Medium Enterprises (SMEs) located in Delhi region.
- To measure the Ethical Quotient in the SMEs.

RESEARCH METHODOLOGY

Research Design

This study is based on random sampling. Total sample size is 70. Research Instrument used was a two-part questionnaire developed by the author. The data analysis tools consisted of t-tests and developing a scoring table on the basis of which the Ethical Quotient was arrived at. SPSS was used for the analysis.

The total sample consisted of 100 working professionals employed in 25 Small and Medium Enterprises located in Delhi and NCR (National Capital Region), India. Organisations from the service sector were randomly selected, based on convenience sampling. Out of 100, only 70 employees from 23 organisations returned the questionnaires with valid responses, which is a return rate of 70%. The participating organisations included DOT Communications (Advertising), Simbhaoli Sugars Ltd (Agriculture), Sona Koyo Steering Systems Limited (Auto Components), Comptaax e Software Pvt Ltd, A R Consultancy and Empyrean Partners (Consultancy Services), Nirulas Corner House P Ltd (Hospitality), Vserv Insurance Services (Pvt) Ltd (Insurance), Real Time Systems Ltd., Comnet Vision India Pvt Ltd, RR Systems Pvt Ltd, BrainPulse Technologies Pvt Ltd, SITA India and Abacus Softech Ltd (IT), Grail Research (KPO), Eastern Medikit Limited and Bi Biotech India Pvt. Ltd (Pharmaceuticals), A K Technic Power Pvt Ltd (Power), Shyam Telecom Ltd and Tulip Telecom Ltd. (Telecom), Anish India Export Pvt Ltd and Orient Craft Limited (Textiles), and Atlanta Travels (Travel Services).

A two-part questionnaire was developed with the first part dedicated to the profile of the respondents. The second part was developed on a five-point Likert scale (Completely False…..Completely True). It consisted of statements related to the Organizational Ethical Standard, Employees' Ethical Perception, and ethical considerations towards Finance, HR, Marketing, Production and Intellectual Property related matters in the companies. In this study, the Ethical Quotient of organisations is seen as a combination of the following parameters:

ORGANISATIONAL ETHICAL STANDARD is wherein the code of ethics is clearly laid down by the management. It is communicated to all employees, and there is a monitoring system in place to take care of any breach in the code.

EMPLOYEES' ETHICAL PERCEPTION talks about the different perceptions the employees have about the code of ethics and the expectations of ethical behaviour of the organisation from the employees.

ETHICS OF FINANCE AND ACCOUNTING INFORMATION is related to creative accounting, earnings management, misleading financial analysis, insider trading, securities fraud, bucket shops, foreign exchange scams [concerning (criminal) manipulation of the financial markets], executive compensation which concerns excessive payments made to corporate CEO's and top management, bribery, kickbacks, facilitation payments (while these may be in the (short-term) interests of the company and its shareholders, these practices may be anti-competitive or offend against the values of society). There have been several accounting scandals like Enron, WorldCom and off late, Satyam in India.

ETHICS OF HUMAN RESOURCE MANAGEMENT It covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee. Majorly in this fall the discrimination issues including discrimination on the bases of age (ageism), gender, race, religion, disabilities, weight and attractiveness. Sexual harassment plagues employees in some form or the other. Then there are issues surrounding the representation of employees and the democratisation of the workplace including union busting and strike breaking. Issues affecting the privacy of the employee like workplace surveillance and drug testing affect employees to a great extent. Issues affecting the privacy of the employer taking the form of whistle-blowing are also critical concerns the organisations face in current times. There are issues relating to the fairness of the employment contract and the balance of power between employer and employee. Finally, the concern by the organisation for the employees related to occupational safety and health.

ETHICS OF SALES AND MARKETING refers to the case of marketing which goes beyond the mere provision of information about (and access to) a product may seek to manipulate our values and behaviour. To some extent society regards this as acceptable, but where is the ethical line to be drawn? Marketing ethics overlaps strongly with media ethics because marketing makes heavy use of media. However, media ethics is a much larger topic and extends outside business ethics. There are pricing issues related to price fixing, price discrimination and price skimming. There are anti-competitive practices which include but go beyond pricing tactics to cover issues such as manipulation of loyalty and supply chains. There also are specific marketing strategies like viral marketing, spam (electronic) and planned obsolescence. The content of advertisements which includes attack ads, subliminal messages, sex in advertising and products regarded as immoral or harmful is also under scrutiny. There are concerns related to children and marketing whereby companies do marketing in schools or use children in advertisements to increase the product sale. The concept of black markets and grey markets is another area of concern.

ETHICS OF PRODUCTION is the area of business ethics deals which with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in either the product or the production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk. Defective, addictive and inherently dangerous products and services (for example tobacco, alcohol, weapons, motor vehicles and chemical manufacturing) are of grave concern to the corporations. Ethical relations between the company and the environment with respect to pollution, environmental ethics and carbon emissions trading have assumed more significance in the current environment. Ethical problems that need to be taken care of are those arising out of new technologies like genetically modified food, mobile phone radiation and health need to be taken care of. There are product testing ethics especially related to animal rights and animal testing, use of economically disadvantaged groups (such as students) as test objects. There are several cases in the history of business environment like Ford Pinto scandal, Peanut Corporation of America and Bhopal Gas Tragedy in India which have made corporations to sit up and take notice of their production processes like never before.

ETHICS OF INTELLECTUAL PROPERTY, KNOWLEDGE AND SKILLS is also important. Knowledge and skills are valuable but not easily ownable as objects. Nor is it obvious whoever has the greater rights to an idea: the company who trained the employee or the employee themselves? The country in which the plant grew or the company which discovered and developed the plant's medicinal potential? As a result, attempts to assert ownership and ethical disputes over ownership arise. Patent infringement, copyright infringement, trademark infringement, misuse of the intellectual property systems, patent misuse, copyright misuse, patent troll, and submarine patent to stifle competition are all serious concerns. Employee raiding, which is the practice of attracting key employees away from a competitor to take unfair advantage of the knowledge or skills they may possess, is also confronted by organisations. The practice of employing all the most talented people in a specific field, regardless of need, in order to prevent any competitors employing them is also seen in today's times.

RESULTS AND DISCUSSION

The Services Sector constitutes a large part of the Indian economy both in terms of employment potential and its contribution to national income. The Sector covers a wide range of activities from the most sophisticated in the field of Information and Communication Technology to simple services pursued by the informal sector workers. In this study, all the participants are a part of one of the following service sectors, namely Auto components, Agriculture, Consultancy Services, Advertising, Hospitality, Power, Telecom, Textiles, Travel Services, Pharmaceuticals, Information Technology, Insurance and KPO with focus on research activities. Of these, Information Technology, Pharmaceuticals, Insurance and KPOs have been categorised as High Intellectual Soft Services while the remaining industries have been classified as Low Intellectual Soft Services. High Intellectual Soft Services are defined as those in which there is an increased risk of security of data, thus requiring a strong ethical culture in the organisation. It is imperative to develop the Ethical Quotient in these industries. They are highly vulnerable to situations which require a strong ethical climate in the organisations. This need is not as high comparatively in Low Intellectual Soft Services (including Trade, Hospitality, Tourism and Recreation, Communication, Real Estate, Health and Consultancy Services). The Ethical Quotient was developed using the scoring scheme given in Table3.

Table3: Scheme & Score Range

Statements	Items	Min. Score	Max. Score	Range for Average Score		
				Low	**Medium**	**High**
Organizational Ethical Standard	16	16	80	16-40	41-65	66-80
Employee's Ethical Perception	26	26	130	26-65	66-105	106-130
Financial Ethics	5	5	25	5-12	13-19	20-25
HR Ethics	8	8	40	8-18	19-30	31-40
Marketing Ethics	7	7	35	7-16	17-26	27-35
Production Ethics	9	9	45	9-21	22-34	34-45

IPR Ethics	4	4	20	4-9	10-15	16-20
Total	**75**	**75**	**375**	**75-175**	**176-275**	**276-375**

Here, N=32 (High Intellectual Soft Services), N=38 (Low Intellectual Soft Services)

The scoring of the responses gave the Ethical Quotient of the High Intellectual Soft Services and Low Intellectual Soft Services based on all the ethical parameters. Table4 clearly indicates that while High Intellectual Soft Services are only in the Medium range for Organization Ethical Standard, Employees' Ethical Perception and HR Ethics, they fall in the Low category with respect to Financial Ethics, Marketing Ethics, Production Ethics and IPR Ethics. This is very alarming and needs to be addressed immediately. It is a serious issue since it is all these four parameters which are highly sensitive with respect to the High Intellectual Soft Services. In the case of Low Intellectual Soft Services, while all the parameters come in the Medium level, the critical Financial Ethics fall in the Low category. This is a poor sign since it is these very ethical considerations that need to be at least medium if not high, for organisations to operate in today's turbulent times. Overall, the Ethical Quotient for these organisations is in Medium range for all the sectors.

Table 4: Ethical Quotient for SMEs

	High Intellectual Soft Services (n=32)		**Low Intellectual Soft Services (n=38)**			**Total**	
	EtQ	**Level**	**EtQ**	**Level**		**EtQ**	**Level**
Organizational Ethical Standard	49.41	Medium	45.84	Medium		47.47	Medium
Employee's Ethical Perception	86.84	Medium	86.45	Medium		86.63	Medium
Financial Ethics	9.81	Low	12.08	Low		11.04	Low
HR Ethics	19.69	Medium	21.03	Medium		20.41	Medium
Marketing Ethics	14.28	Low	17.87	Medium		16.23	Low
Production Ethics	17.25	Low	23.37	Medium		20.57	Low
IPR Ethics	8.81	Low	9.58	Medium		9.23	Low
Total Ethics Score	206.09	Medium	216.21	Medium		211.59	Medium

Then t-tests were conducted to find out the level of significance of each of the parameters viz. both High Intellectual Services and Soft Services. The results indicated that there was a significant level of difference with respect to the parameters of the Financial Ethics, Marketing Ethics and Production Ethics. The table (Table5) summarises the results of the t-tests.

Table 5: t-Test values of all parameters

Group Statistics	Sector	N	Mean	Std. Deviation	Std. Error Mean	t	Sig. (2-tailed)
Total Organizational Ethical Standard	H.I.S.S.	32	49.40	15.77	2.78	0.87	0.38
	L.I.S.S.	38	45.84				
Total Employees' Ethical Perception	H.I.S.S.	32	86.84	19.31	3.41	0.09	0.92
	L.I.S.S.	38	86.44				
Total Financial Ethics	H.I.S.S.	32	9.81	3.35	0.593	-2.89	**0.005**
	L.I.S.S.	38	12.07				
Total HR Ethics	H.I.S.S.	32	19.68	5.40	0.95	-1.03	0.30
	L.I.S.S.	38	21.02				
Total Marketing Ethics	H.I.S.S.	32	14.28	4.87	0.86	-3.13	**0.003**
	L.I.S.S.	38	17.86				
Total Production Ethics	H.I.S.S.	32	17.25	7.11	1.25	-3.92	**0.000**
	L.I.S.S.	38	23.36				
Total IPR Ethics	H.I.S.S.	32	8.81	2.76	0.48	-0.99	0.32
	L.I.S.S.	38	9.57				
Total Ethics Score	H.I.S.S.	32	206.09	38.54	6.81	-0.97	0.33
	L.I.S.S.	38	216.21				

The t-test values show significant difference in mean scores of the critical functions of finance, marketing and production in the High Intellectual Soft Services. There is a need to sensitise and standardise the Ethical practices. The general ethical standards laid down are only falling in the medium range. The perception of the employees towards the ethical practices is also in the medium range, implying that the communication of the Ethical code in the organisations to the employees is average. It is for this reason that SMEs in India have not been able to graduate to higher levels. Even though they play a critical part in the Indian economy, they have not themselves been able to grow as much, and the main reason for this is their lackadaisical response towards business ethics and adoption of ethical practices in their business operations.

CONCLUSION AND THE WAY FORWARD

The above results call for implementation of a robust policy related to Ethics and the following steps are proposed for the same:

Identify and define core values of the business: An effective ethics policy will be based on a set of values. In SMEs, these values will inevitably be influenced by the personal and professional values and principles of the owner-managers. However, it is considered good practice to consult employees about this, asking them what they think the values of the organisation are. Employee involvement can increase the effectiveness of an ethics policy; it is the first stage in embedding values in the culture.

Draw up a code of ethics: A code of ethics is the main tool for implementing an ethics policy. It translates core values into specific commitments and expected behaviours in relation to the organisation's key stakeholder groups (i.e. customers, employees, suppliers and contractors, providers of finance and community). A code will also be a good place to address environmental responsibilities and to state how the company seeks to relate to its competitors. When drawing up a code, it is also helpful to ask employees about ethical issues that concern them and on which they would like guidance.

Embedding the Code: The code needs to be communicated throughout the company. All employees should be made aware of the code, the commitments the organisation has made and the ethical behaviours that are expected of them as members of the organisation and how they can get support. It will be good practice if owner-managers themselves introduce the code to new employees and remind existing staff of the importance of responsible behaviour on a regular basis, e.g. in staff meetings. Owners or senior managers need to be aware that their behaviour sets an example to their employees.

External standards and guidelines: External codes and standards will complement and strengthen the ethics policy and culture of an SME. Informal and formal professional codes of practice may inform their business practices and greatly enhance the business's reputation.

The above steps can help formulate the Ethical policy of the SMEs, which is a business requirement in current times.

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