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Business Ethics as A Measure of Corporate Performance — A Study on Indian Listed Companies

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Introduction

In the era of industrialisation, pursuing market opportunities while maintaining ethical integfity became a cmcial challenge for business enterprises. The responsibility and accountability ofjoint stock companies is constantly under scmtiny post notorious scandals like those of Enron, WorldCom, Adelphia, Tyco intemational and Satyam. Fillther, the global financial crisis in the year 2008 exposed the world to the pefils of colporate governance failures, unregulated markets, and neglected risk management (Dandapat, n.d.). Most of the companies have placed ethics on the strategic agenda due to govemment regulations, augmented pressure from stakeholders and media. However, the ultimate objective of the corporate world remains shareholders wealth maximization. As agency theolY asselts the importance of shareholder value maximization, managers are often incentivized to behave in the best interest of the shareholders ignoring other stakeholders. Traditionally businesses assessed the perfonnance of companies using only financial measures. In the recent times there is growing emphasis to adopt comprehensive measures including non-financial measures(Proffitt, 2000)

The concept of colporate perfonnance and performance measurement is continuously evolving. There are many financial indicators to measure the perfonnance — profits, eamings per share, returns to shareholders and so on. Evan Davis and John Kay (1990) discussed the concept of added value which means the amount by which the value of colporate output exceeds the value of all the inputs the company uses. The concept of colporate pelfonnance to a large extent is understood as financial perfonnance. Assessing financial perfonnance is very impoltant as profitability is vital for the existence and continuity of a business. But this will not provide holistic view of the performance of an organization. Going concern concept says that a business must function without the threat of liquidation for a foreseeable future and should be able to honor its financial obligations when due(Associate et al., 2022). Measuring profitability alone may not ensure sustainable perfonnance for an organization. Once businesses become large, listed entities, along with financial perfonnance other aspects like quality of govemance, contribution towards society, initiatives towards sustainability and so on will also be considered to measure the holistic perfonnance of an organization. When profitability was the sole aspect of the business, focus was on producers, later attention shifted to consumer. When shareholder wealth maximization theory was propagated, shareholder was the most impoltant beneficimy(Solovida, 2021). Today, the concept of stakeholder is the key. All stakeholders of the business must be taken into consideration while doing business.

Literature Review

Literature review is presented under three sections a) Business Ethics and Stakeholder theory b) Colporate performance measures c) ESG repolting

Business Ethics and Stakeholder theory

Edward Freeman (1984) detailed the stakeholder theory of organization management and business ethics in his book Strategic Management — A stakeholder approach. The model addresses morals and values in managing an organization(Naeem, 2022). The theolY argues that a business should create value for all stakeholders not just for shareholders. Commonly recognized stakeholders for a business are employees, customers, investors, owners, suppliers, lenders, govemment, and society (Uddin and Popesko, 2020). Stakeholders of a business can be classified as intemal and extemal. When multiple stakeholders are involved, business objectives too are holistic. Being financially stable, customer centric approach, contribution towards society and environment and finally being a corporate citizen should be the focus of an organization. Stakeholders of the business track and analyze the perfonnance of the business through business repolting(Dandapat, 'n.d.). Today business reporting not merely financial reporting but it also includes reporting on corporate social responsibility and sustainability. ESG reporting is a comprehensive method of reporting which encompasses environmental, social and govemance aspects of an organization(Naeem, 2022).

Corporate Performance Measures

Perfonnance measurement is acknowledged as one of the important measures of controlling various activities in an organization. Control involves setting targets for performance, measuring actual pelfonnance, identifying deviations, and taking corrective action. Traditionally organizations used financial measures like Retum on Investment (ROI), Entelpfise value Added (EVA) etc (Uddin and Popesko, 2020). Earlier studies reveal that non- financial factors influence financial perfonnance to a large extent. Balanced scorecard gained popularity as a measuring system since it incolporates both financial and non- financial aspects(Moullin, 2007). Balanced Score card comprises of indicators in the areas of learning and growth, customer value, intemal business processes, imovation and financial perfonnance which facilitate the alignment of organizational goals with performance. Balanced scored cards with sustainability considerations are refened to as sustainability balanced scorecards. Each measure of perfonnance addresses a different aspect of performance(lslam, 2022). For example ROI indicates which investment yields highest retum, EVA takes into account the corporate actions that maximize the economic wealth and balanced scorecard measures how organizations create value for the cunent and future stakeholders especially customers. None of the above measures address environmental, social, govemance and ethical aspects comprehensively(Uddin and Popesko, 2020).

ESG Reporting

ESG repolting is the disclosure of environmental, social and governance data. The objective is to tln•ow light on the companies ESG activities so as to maintain transparency and encourage other organizations to follow the same (Hastalona and Sadalia,2021). ESG repolts provide a summa1Y of qualitative and quantitative aspects of an organization's ESG initiatives thus allowing the investors to avoid investments in companies that cause long term damage to the environment.

Environmental aspect focuses on how companies manage and use their energy and resources. Factors like carbon emission, water quality, deforestation, waste management are primafily considered (Alsayegh et.al , 2020) . Companies that ignore environmental factors may face financial risks and lose investors confidence in the long run. Social criterion studies how a company nurtures its culture and people and its broader impact on the community (Htibel and Scholz,2020) Factors like diversity and inclusion, employee engagement, employee satisfaction, human rights, labor protection are considered under this head. Govemance focus on practices, procedures and intemal control system. Factors like leadership, board composition, shareholder rights, whistle blower program, conuption and bribe1Y are addressed. From the past few years companies started embedding ESG repolting in their annual repolts to communicate to the shareholders the company's emphasis on sustainability(Amold et, al, 2012) . As ESG repolting is voluntmy in most of the countries, many proactive and futuristic companies are voluntarily repolting ESG data in then annual reports. Earlier studies revealed that companies with good ESG performance demonstrated higher retums, better resilience and lower risks. Going forward, ESG transparency will emerge as a key focus area for the companies as investors are increasingly focusing on ESG issues while considering investment options(Buallay, 2018). On the other hand, companies that do not provide these repolts show a lack of transparency and concemed investors may overlook them as potential investments (Simone et.al, 2022). ESG and sustainability are often used interchangeably. Sustainability is a broad tenn for green and colporate responsibility concepts. ESG became a preferred tenn for capital markets and investors The company might have commenced with sustainability initiatives, but it has evolved to include ESG performance, practices, repolting and relevance to capital oppoffunities (Gibson et.al, 2020) . ESG data helps identify risk-adjusted retums. Emphasis on all three pillars has aided the shift in how companies measure and disclose their pelfonnance (Annstrong, 2020)

Research Methodology

Milton Friedman, Nobel Laureate in Economics once asselted that the sole aim of the business is to earn profits and shareholder value maximization must be the priority of a business he argued.

Social missions and upliftment of society must be the responsibility of individuals, society, and govemment he argued. There has been a huge transformation in this thought process over a period. Stakeholders' theory is central to every business today and businesses strive their level best to cater to the needs of all stakeholders. Businesses are considered as colporate citizens and society expects a colporation to be responsible entity. Eaming profits is still considered as the most impoltant objective but along with that contlibution towards society, running a sustainable business and being ad ethical entity too are essential components of running the business. In a nutshell, colporate governance is measured by assessing multiple components of a business. ESG repolting (Environmental, social and governance) is being adopted in many companies in place of earlier

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financial repolting. In many countries, ESG repolting is becoming mandat01Y. This type of reporting assesses overall performance of the business — profitability, compliance, contribution towards the society and sustainability initiatives of the business. SREE model of govemance (Doreswamy Hema, Lokhande Madhavi, Uttam Radhika, 2020) is a holistic model of measuring the perfonnance of a business. It measures the overall quality of colporate govemance by considering four components — Social (CSR initiatives), Regulatory (Compliance and financial), Ecological factors (Sustainability initiatives) and Ethical factors.

In this model, the perfonnance of the company is assessed by collecting infonnation on each of the components Social, regulatory, ecological, and ethical and finally a composite score is developed. Infonnation is collected by using a questionnaire and the questionnaire has 109 questions in total. For this study, since the research is to assess the ethical behavior of the companies, last component of the questionnaire ethical component is considered. Out of 109 total questions, 23 questions comes under ethical behavior. Hence for this research, 23 questions are considered.

Arriving at Ethical Score of Company by Using the Questionnaire:

The data collected on each question is classified as completely disclosed/completely adopted, more or less completely, paltially, and not disclosed/ not adopted. If the company is completely disclosed the infonnation 3 marks for each question is awarded, for more or less completely 2 marks, paltially I mark and for not disclosing 0 marks. In the end a composite score is awarded after considering all the 23 questions.

Data Collection Tools: The study is based on secondmy data. Data collection is based on the disclosures made by the companies. Annual repolts of the companies are the tools for data collection.

Sample Size: Sensex 30 is an index of most valuable 30 companies in India. For this research, Sensex 30 companies is the sample size. All 30 companies' annual repolts will be analyzed to collect the data.

Analysis of the data: The data collected will be analyzed based on the level of disclosures and a composite score will be arriv

Analysis and Discussion

Table 1- Composite Scores based on Ethical Performance

Name of the Company	Total score	score
ech Mahindr	4	92.7
Bharathi airtel	61	88.41
HCL	60	86.96
Infosys	60	86.96
	59	85.51

Asian paints	57	82.61
TCS	57	82.61
Ultra tech	57	82.61
Axis bank	56	81.16
	56	81.16
NTPC	56	81.16
Reliance	56	81.16
Tata steel	56	81.16
Maruthi suzuki	55	79.71
Sun Pharma	55	79.71
HUL	54	78.26
Wipro	54	78.26
Indusind bank	53	76.81
Kotak mahindra bank	52	75.36
SBI	52	75.36
Titan	52	75.36
Power grid	51	73.91
Bajaj finance	50	72.46
HDFC bank	49	71.01
ICICI	48	69.57
Bajaj Finserv	47	68.12
ITC	47	68.12
HDFC fin	43	62.32
Dr Reddy's lab	42	60.87
Nestle	37	53.62

It is obsewed that the top 5 companies in tenns of ethical pelfonnance are Tech Mahindra, Bhalti Ailtel, Infosys, HCL and L& T with scores 64,61,60,60 and 59 respectively. The companies with least scores are HDFC fin, Dr Reddy's lab and Nestle with scores 43, 42 and 37 respectively. The average score is 52.82. Companies like Power grid, Bajaj finance. HDFC bank, ICICI and ITC are below the average along with HDFC fin, Reddy Labs and Nestle. All other company have above average score.

Conclusion

Ethical component is becoming increasingly important among the business organisations as the pressure is increasing from all the stakeholders especially investors. Investors look for socially responsible investments. To a large extent financial performance of the organisations is influenced by ethical performance and transparent reporting. In the present era, business organizations are not just profit-making entities, but they are considered as colporate citizens. Though compliance and regulation help in increasing the quality of govemance, ultimately the ethical quotient of the companies detennine the holistic and sustainable perfonnance of an organization. Going forward, more focus needs to be given to improve the ethical behaviour of the business.

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