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Comparative Perception among Profit & Non-Profit Organizations in India

* Sweta Patel ** Dr. V. K. Sapovadia

* Assistant Professor, LJ Institute of Management Studies, Ahmedabad, INDIA

** Director, Shanti Business School, Ahmedabad, INDIA

ABSTRACT

'Ethics' has different meanings across the time and people, some core values of 'Ethics' has consensus. This paper attempts to study how 'ethics' is perceived by employee of Profit & Non-Profit organizations in India. We study organizational policies of various Profit & Non-Profit organizations and compare them to find the cause of variations. We also probe issues & challenges in implementing policies in both types of organizations by analyzing compliance & audit reports of those organizations. The study is encircling the legal environment of both types of organization that influence the culture of ethics. We also draw list of compulsive factors in both types of organizations that influence stakeholders to choose or not to choose some values as part of ethics.

Keywords : Ethics, NPO, NGO, Corporate

The Context

The word 'Ethics' is understood by different people differently under different situation and by a person differently at different point of time. However, across the time and people, there are some core values[3] of 'Ethics' where there is consensus and they are universal. This paper attempts to study how 'ethics' is perceived by employee of Profit & Non-Profit organizations in India. Our study is largely based on secondary data. We study organizational policies of various Profit & Non-Profit organizations and compare similarities and dissimilarities among them and attempt to find the reason or route cause of dissimilarities. We also probe issues & challenges in implementing policies in both types of organizations by analyzing compliance & audit reports of those organizations. The study is encircling the legal environment of both types of organization that influence the culture of ethics. We also draw list of compulsive factors in both types of organizations that influence stakeholders to choose or not to choose some values as part of ethics. Limitation of the study remains in the fact that, we could only study some of the organizations that are formally documenting such records and making documents public. However large numbers of organizations are not maintaining such policies or are not making such policies available on public domain.

In dealing with ethical issues, non-profit managers are often faced with dilemmas that defy a simple choice between right and wrong. When there is no obvious way of prioritizing responsibility, and no precedent to emulate, resolution of such dilemmas demands careful consideration of stakeholder expectations when looking at the ethical options, so that decisions satisfy not only the immediate problem but also align with the organization's mission, values and ethical code[4]. Non-profit organizations face some ethical dilemmas not usually faced by their for profit counterparts. This may be because they are more inclined to be constructively attempting to do 'the right thing' or because they are often driven predominantly by social goals, as opposed to wealth maximization goals. Either way, research shows evidence that the problems experienced by non-profit organizations are unique and distinct. These dilemmas usually occur when there is no single correct course of action, no easy way of prioritizing responsibility, and no precedent to emulate. In such circumstances, non-profit managers need to be acutely aware of stakeholder expectations, ethical issues pursuant to them, and the ethical options available, in order to make wise decisions that satisfy not only the immediate problem but also facilitate long-term viability.

The Framework

Keeping in mind the critical and common decision criterions that influence moral of an employee in both types of organizations are analyzed in subsequent discussion, we attempts to develop a framework of ethical dilemmas for profit & non-profit organizations. The corporate sector has pressure to maximize profit and hence unethical behavior, charitable organizations too shares the world of profit by saying surplus. Unethical behavior remains a persistent problem in nonprofits and for-profits alike, but the perception of employee about ethical practice in both type organizations is substantially different. To help organizations solve that problem, we examine the factors that influence moral conduct, the ethical issues that arise specifically in both type of organizations, and the practitioner can find the best ways to promote ethical behavior within any type of organizations. Authors intend to provide a framework[5] of decisions that influence the ethical judgmental capacity of the employee and a list of guiding indicators for employee and organization.[6] The greatest threat to the not-for-profit sector is the betrayal of public trust, the disappointment of public confidence and misuse of tax exemption status, while threat to the for-profit is betrayal of investors' trust.

Success or failure of any organization depends upon the quality of decisions taken by the people behind it. The mind of employee determines the course of action through various individual and collective or group decisions. The course of any action, whether action is right or wrong depends upon situational context. The unique and specific dilemma associated with profit and non-profit organizations are due to inherent nature of the organization to work for profit and or charitable activity respectively. The objective of the organization, the statute under which it is registered, the supplier of funds are critical and dynamic factor that change the perception of any action to be seen as right or wrong. The human tendency to perceive core value of ethics change when there is conflict of interest is witnessed. Conflict of interest in profit and non-profit organization are quite different due to inherent nature of their very existence and survival is different. It is difficult to compartmentalize all decisions in single category, but few decisions are overlapping in nature. Some of the obvious reasons are depicted below:

Table-1
Framework of Ethical dilemma and its sources in Profit & Non-profit organizations

The source	Profit organization	Non-profit organization
The objective	Profit maximization is the objective	To extend benefit to beneficiary or charity is the objective
The statue under which registered	Registered under Companies Act or other similar Act, Partnership Act etc.	Registered under Trust Act or other similar Act
The fund & investors	accountability to shareholders and other investors, lenders & creditors	accountability to sponsors, donors and funding institutions
Market environment	Competitors and other stakeholders expectations are high	Trustees, donors' expectations are moderate, stakeholders expectations are low
The objective and the environment	Internal human resources specific to deliver the result within market pressure	Internal human resource issues specific to charitable activities
Regulatory requirement	Internal & External Reporting requirements	Internal ethical reporting, code of conduct and reporting to charity commissioner
Reporting requirement	Compliance to corporate, taxation & stock exchange law	Mission compliance specific to charitable law and donor agencies
Conflict of interest	Conflicting stakeholder requirements are aggressive while taking certain business decisions in order to survive and profit maximization	Conflicting stakeholder requirements are silent while certain charitable and procurement decisions

Financial integrity
Integrity means being honest, standing for what are right, saying what one mean in any financial transaction, holding steadfast to what one promise, and frankly admitting mistakes and making amends where appropriate. The objectives of the organization determine the right or wrong decision in any financial matter. What is ethical for profit making may not be so for its counter part. Financial integrity is coupled with market pressure, where in profit organization, the trade off is between profit maximization and expenses determines the way of action while in non-profit organization, the trade off is between propriety and expenses. Financial integrity in a narrow sense means to act in order to achieve the objective and strictly adhering legal requirement but not necessary with same spirit. Manager's decision may be right in legal compliance to judge his financial integrity, but may not be with wider societal norms.

Environmental compliance
All organizations also using resources provided by society other than their primary fund providers like shareholders and donors. It is implied therefore that, the organization should also take care of societal interest in consideration. Profit organization tends to harvest profit at cost of environmental damages, the manager should keep balance and draw a line to stretch profit oriented task to a limit acceptable to the society. Not only required legal compliances to environment regulator, but use minimum conventional energy resources and promote use of non-conventional resources. The focus of manager of profit organization is short term gain, which may some time result into long term environmental damage.

Accounting & Financial Reporting
Accounting environment provide diverse range of different treatment in profit and non-profit organization. Profit organizations have to report their operations as per GAAP (Generally Accepted Accounting Principles) and law subscribed under applicable GAAP to the organization. The prominent piece of legislation that applies to a company is The Companies Act 1956. One of the most prominent union laws affecting for-profit organization's accountability and listed company is under clause 49 of Listing Agreement. Financial reporting is so far influenced when matters are subjective and can take alternative path. All states in India have statutes governing the nonprofit organizations in that state and some of those laws specifically address accountability and transparency issues: for example, the law dictates the procedures a board of governors or trustees must follow to address conflicts of interest, and several states' laws prohibit loans to trustees and board members . State laws and regulations also typically dictate a threshold level of financial transparency through annual filing and charitable registration requirements. The Income Tax law allows tax exemption to the public trust only if expenses are incurred for charitable purpose and trustees are benefitted.

Investment Policies
Nonprofit organizations also face ethical dilemmas in deciding whether to accept donations that have any unpalatable associations or conditions. Provisions of Companies Act limit how company can borrow money and invest. The Act prescribes limit over sources to avoid unnecessary risk arising out of failure of transacting entity. The Trust law also dictates how a public trust can make their investment. A trust can make investment in the list prescribed to ensure reasonable safety of the fund. Manager in either case has to take a call in investing the amount by trade off between return and risk, but there is always a room to debate whether decision is in benefit of the organization or not, particularly where there are instances of incentives offered to manager to lure investment of the company or trust in their funds. Advocates of socially responsible investing argue that nonprofit organizations should ensure that their financial portfolio is consistent with their values. In its strongest form, this strategy calls for investing in ventures that further an organization's mission. In its weaker form, the strategy entails divestment from companies whose activities undermine that mission. Trust Act being the concurrent matter, the state government can decide the list of securities where the trust can make investment. However, the government do not provide any guarantee for the return of the fund, on the part of the trust, investment in such securities become shelter in case of trouble.

Code of conduct
Good governance and transparency are fundamental to achieving objectives of the organization in long run. Governance & Transparency are two pillars which stand on written code of conduct of the organization. Per se a company registered under Companies Act 1956 requires no code of conduct, but if Corporate Governance norms apply to a company because of any reason like it is listed, code of conduct becomes part of overall corporate governance framework. However, no state law requires a nonprofit to have a Code of Ethics. The code envisages and expects generally to adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships. It also seeks full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed with Government and regulatory agencies. This is not only a legal compliance with applicable laws, rules and regulations but to redress misuse or misapplication of the organizational assets and resources and to maintain highest level of confidentiality and fair dealing within organization and with the outside world.

Situational & Market pressure
Career of a manager in profit making organization is at mercy of bottom line of the company It was revealed in a study by

Steensma and Cochran that it's pressure from market stakeholders like customers, suppliers, shareholders that most influence executive decision-makers to use ethics codes. It appears executive decision-makers are also more likely to establish ethics codes when it's good for the corporate image. Current cut throat competition leads manager to adopt actions that keep him and his company ahead of the competitors even by deviating from the standard path of actions. Similar market situation does not exit for non-profit organizations.

Tax Planning vs. Tax Exemption

The non-profit organization may abuse its tax-exempt status by charging excessive interest on loans and by providing millions in compensation and lavish perks to its trustees and officers. According to a CBS News poll, only a quarter of Americans think that top executives are honest. Even executives themselves acknowledge cause for concern. The American Management Association Corporate Values Survey found that about one third of executives believed that their company's public statements on ethics sometimes conflicted with internal messages and realities. And more than one third of the executives reported that although their company would follow the law, it would not always do what would be perceived as ethical. Employee surveys similarly suggest that many American workplaces fail to foster a culture of integrity. Results vary but generally indicate that between about one-quarter and three-quarters of employees observe misconduct, only about half of which is reported. National Nonprofit Ethics Survey (2007) slightly more than half of employees had observed at least one act of misconduct in the previous year, roughly the same percentages as in the for-profit and government sectors. Nearly 40 percent of nonprofit employees who observed misconduct failed to report it, largely because they believed that reporting would not lead to corrective action or they feared retaliation from management or peers.

Public confidence

Addressing ethical concerns requires a deeper understanding of the forces that compromise ethical judgment and the most effective institutional responses. One should understand the principal forces that distort judgment in all types of organizations which can then help in suggesting ways that organization (profit or non-profit) can prevent and correct misconduct and can institutionalize ethical values in all aspects of the organization's culture. Causes of misconduct ethical challenges arise at all levels in both types of organizations. Some of these challenges can result in fraud, misrepresentation, and misappropriation of assets, conflicts of interest, misallocation of resources, or inadequate accountability and transparency. Cognitive biases can compromise these ethical capacities. Those in leadership positions often have a high degree of confidence in their own judgment. That can readily lead to arrogance, over optimism, and an escalation of commitment to choices that turn out to be wrong either factually or morally. As a result, people may ignore or suppress dissent, overestimate their ability to rectify adverse consequences, and cover up mistakes by denying, withholding, or even destroying information.

Compensation

A person's ethical reasoning and conduct is also affected by organizational structures and norms. Skewed reward systems can lead to a preoccupation with short-term profits, growth, or donations at the expense of long-term values. Mismanaged bonus systems and compensation structures are part of the explanation for the morally irresponsible behavior reflected in Enron Corp. and in the recent financial crisis. In charitable organizations, employees who feel excessive pressure to generate revenue or minimize administrative expenses may engage in misleading conduct. Employees' perceptions of unfairness in reward systems, as well as leaders' apparent lack of commitment to ethical standards, increase the likelihood of unethical behavior. Agency theory argues that managers are working as agent of the company for compensation as its consideration. A variety of situational pressures can also undermine moral conduct. Salaries that are modest by business standards can cause outrage in the nonprofit sector, particularly when the organization is struggling to address unmet societal needs. Nonprofits also face issues concerning benefits for staff and volunteers. How should an organization handle low-income volunteers who select a few items for themselves while sorting through noncash contributions? Should employees ever accept gifts or meals from beneficiaries or clients? Even trivial expenditures can pose significant issues of principle or public perception.

Collective decision vs. Fragmented Decisions

Moral blinders are especially likely in contexts where people lack accountability for collective decision making. That is often true of boards of directors—members' individual reputations rarely suffer, and insurance typically insulates them from personal liability. Large organizations facing complex issues may undermine ethical judgments by fragmenting information across multiple departments and people. In many scandals, a large number of professionals—lawyers, accountants, financial analysts, board members, and even officers—lacked important facts raising moral as well as legal concerns. Work may be allocated in ways that prevent decision makers from seeing the full picture, and channels for expressing concerns may be inadequate. The organization should blend individual and collective decisions in overall framework to ensure organizational and societal norms go together.

Ethical climate and Leadership

Importance and understanding of meaning of morality that employees give to workplace policies and practices are equally important. Organizations signal their priorities in multiple ways, including the content and enforcement of ethical standards; the criteria for hiring, promotion, and compensation; and the fairness and respect with which they treat their employees. People care deeply about "organizational justice" and perform better when they believe that their workplace is treating them with dignity and is rewarding ethical conduct. Workers also respond to moral cues from peers and leaders. Virtue begets virtue, and observing integrity in others promotes similar behavior. Often the most critical determinant of workplace culture is ethical leadership. Employees take cues about appropriate behavior from those at the top. No organizational mission statement or ceremonial platitudes can counter the impact of seeing leaders withhold crucial information, play favorites with promotion, stifle dissent, or pursue their own self-interest at the organization's expense. Leaders face a host of issues where the moral course of action is by no means self-evident. Values may be in conflict, facts may be contested or incomplete, and realistic options may be limited. Yet although there may be no unarguably right answers, some will be more right than others—that is, more informed by available evidence, more consistent with widely accepted principles, and more responsive to all the interests at issue. Where there is no consensus about ethically appropriate conduct, leaders should strive for a decision making process that is transparent and responsive to competing stakeholder interests.

Conflicts of Interest

Conflicts of interest arise in profit and the nonprofit organizations. Conflict of interest arise when a manger take decision for the organization where the decision also influences his judgment because of his associated advantage or disadvantage due to particular course of action of the decision. In profit organization, conflict of interest arises while in purchase or sale transaction of goods with the third party which is serving manager's personal interest. This may happen in appointing people, awarding contracts, disposing obsolete items and so on. Related conflicts of interest arise when an organization offers preferential treatment to board members or their affiliated companies. Despite the ethical minefield that these transactions create, many nonprofits oppose restrictions because they rely on insiders to provide donations or goods and services at below-market rates. Yet such quid pro quo relationships can jeopardize an organization's reputation for fairness and integrity in its financial dealings. To maintain public trust

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and fiduciary obligations, nonprofits need detailed, unambiguous conflict of interest policies, including requirements that employees and board members disclose all financial interest in companies that may engage in transactions with the organization. At a minimum, these policies should also demand total transparency about the existence of potential conflicts and the process by which they are dealt with. Conflict of interest is best described within the public sector when there is reasonable perception that a public servant's ability to exercise an official duty or function is affected by his or her private interest. Conflicts of interest can divide an individual's loyalty to self or family vis-à-vis the organization and result in inappropriate actions. Conflict of interest also takes place in the private sector, for example, when people who are put in positions of trust and responsibility are forced to choose between promoting the interest of the employer and promoting personal interest. The conflict occurs when one looks out for the best interest of one party at the expense of another party. Both internal and external forces may cause conflict of interest situation. Internally motivated, conflict of interest, for example, can happen when a supervisor chooses to promote a friend over other capable workers in the same organization. When due process in promotional competitions is not followed because of the candidate's friendship with the supervisor, a conflict of interest situation is created.

Conflicting interests and Conflict of Interest are two different things. Conflicting interest is when the people involved have different views in a particular case, while conflict of interest is when one chooses between opposite interests. Self-interest plays a major part in the dilemma. The right choice has to be made because there is no middle ground in cases of conflicts of interest. When the line is crossed and the incorrect interest is taken, a conflict of interest takes place, which may lead to an abuse of trust. Following advice would help organization to have policies in place that avoid conflict of interest:

- Develop a organizational policy
- Put an organization resource centre in place
- Develop and put in place a Standard of Conduct Guidelines for the procurement
- Develop a Conflict of Interest Act for senior employees
- Educate, advice, and investigate in matter of conflict of interests
- Motivate employees to fill Conflict of Interest Disclosure Forms
- Promote and regulate internal audit
- Rotate people in sensitive positions
- Remove temptation
- Update policy as needed and enforce it
- Avoid double message

Accountability
Accepting the consequences of one's actions and accepting the responsibility for one's decisions and their consequences. Accountability refers to fixing responsibility of one's action. It ie imperative therefore that accountability begins with delegating authority and fixing responsibilities in a transparent but clear organizational structure. Showing and keeping the trust by not revealing or disclosing what is privileged and private or secret, but by defining explicitly. By definition, nonprofit organizations are not subject to the checks of market forces or democratic control of investors. Money held in public trust should be well spent, not just well-intentioned. But in practice, ethical obligations bump up against significant obstacles.

Although no set of rules or organizational structures can guarantee ethical conduct, nonprofits can take three steps that will make it more likely. One of the most critical steps that nonprofits can take to promote ethical conduct is to ensure that they have adequate ethical codes and effective compliance. Codified rules can clarify expectations, establish consistent standards, and project a responsible public image. If widely accepted and enforced, codes can also reinforce core values, deter misconduct, promote trust, and reduce the organization's risks of conflicting interests and legal liability. Although the value of ethical codes and compliance structures should not be overlooked, neither should it be overstated. A recent survey of nonprofit organizations found that only about one third of employees believed that their workplace had a well implemented ethics and compliance program. This figure is higher than the corresponding figure for the business (25%) and government (17%) sectors, but still suggests ample room for improvement. Part of the problem lies with codes that are too vague, inflexible, or narrow. Only about half of nonprofit organizations have conflict of interest policies, and less than one third require disclosure of potentially conflicting financial interests. A related difficulty is compliance programs that focus simply on punishing deviations from explicit rules, an approach found to be less effective in promoting ethical behavior than approaches that encourage self-governance and commitment to ethical aspirations.

Conclusion:
Finance is life blood of any organization, whether the organization is commercial or charitable it work with finance and work for finance. When finance is managed by an employee having personal interest, the organization should provide a framework that an individual has a little choice but to declare his interest and keep away him self from taking the decision. A manager's compensation should equal to his efforts and efficiency. An employee is honest if he is strictly observed and get what he deserve. Following guideline will help organization to develop framework and self governing rules for the employees.

Table-2
Ethical Compliance: Guide for organization and Employee

Self governing rules		
Take away for organization		
Be self aware - aware of one's own motives Review action from the point of view of others What would it be like if others did it Analyze from possibility of spoiling your reputation Remember to uphold public and private trust put in your hands Do not try to satisfy the different interest of opposing views, must give up some	Plan Organize Educate staff Direct Explain Assist Protect Co-ordinate Report Advise Intervene Train Budget Integrate Evaluate	Do not overlook wrongs Look yourself in the mirror before you commit such an unfair act Will you sleep comfortably at night? Can you live with yourself? What kinds of perception will the public form over my actions? What kind of impact will my actions have on my political life?

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