

Business ethics and CSR

BBA SEC-401

Lecture notes

INTRODUCTION OF BUSINESS ETHICS

Some years ago, one sociologist asked business people, "What does an ethic mean to you?" Among their replies were the following:

"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."

"Ethics consists of the standards of behavior our society accepts." "I don't know what the word means."

Definition & Nature of business ethics:

The term "ethics" is derived from the Greek word "ethos" which refers to character or customs or accepted behaviors. The Oxford Dictionary states ethics as "the moral principle that governs a person's behaviour or how an activity is conducted". The synonyms of ethics as per Collins

Thesaurus are - conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

Ethics can be defined as the discipline dealing with moral duties and obligation, and explaining what is good or not good for others and for us.

Business Ethics

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application moral or ethical norms to business. Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others. 'Code of conduct' is a set of principles and expectations that are considered binding on any person who is member of a particular group. The alternative names for code of conduct are 'code of ethics' or 'code of practice'.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business.

SCOPE OF BUSINESS ETHICS

1) Ethics in Compliance

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws.

2) Ethics in Finance

The ethical issues in finance that companies and employees are confronted with include:

- In accounting - window dressing, misleading financial analysis.
- Related party transactions not at arm's length
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements

Importance of Ethics

- 1) Satisfying Basic Human Needs:** Being fair, honest and ethical is one of the basic human needs. Every employee desires to be such himself and to work for an organization that is fair and ethical in its practices.
- 2) Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses of an organization. Infosys, for example, is perceived as an organization for good corporate governance and social

responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organization is into.

- 3) Uniting People and Leadership:** An organization driven by values is revered by its employees also. They are the common thread that brings the employees and the decision makers on a common platform. This goes a long way in aligning behaviors within the organization towards achievement of one common goal or mission.
- 4) Improving Decision Making:** A man's destiny is the sum total of all the decisions that he/she takes in course of his life. The same holds true for organizations. Decisions are driven by values. For example an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.
- 5) Long Term Gains:** Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money. Tata group, one of the largest business conglomerates in India was seen on the verge of decline at the beginning of 1990's, which soon turned out to be otherwise. The same company's Tata NANO car was predicted as a failure, and failed to do well but the same is picking up fast now.

Corporate Social Responsibility (CSR)

Definition

Corporate Social Responsibility (CSR) is a business approach companies follow to make a social impact and focus beyond profits. Its main purpose is to enhance the company's image, earn customer loyalty and generate more sales. It also benefits society and the environment as businesses work for the collective good.

There are four main types of corporate social responsibility – environmental, ethical, philanthropic, and economical. CSR is extremely important now as consumers know about the negative externalities caused

by production activities. Common CSR initiatives include donating to charity, providing disaster relief, promoting renewable energy, encouraging gender equality, addressing racial discrimination, etc.

Types of CSR

There are four important types of corporate social responsibility:

1. **Environmental CSR** – Companies focus on environmental protection and conservation in this category. They launch initiatives to reduce pollution or emission, offset carbon footprint, recycle waste, and use renewable energy sources.
2. **Ethical CSR** – The ethical responsibility of a business has to do with the moral values and ethical beliefs of organizations. It usually covers all the stakeholders of the company – employees, suppliers, and investors. Issues like gender equality, reasonable working hours, high minimum wage, etc., fall under ethical CSR.
3. **Philanthropic CSR** – Businesses' donations and contributions made to charity are considered philanthropy. Helping malnourished children or rescuing people in war-torn regions come under this.
4. **Economical CSR** – The last type of social responsibility focuses on the financial aspects of environmental, ethical, philanthropic, and social initiatives. A company should not just make profits but also practice fair measures like paying taxes responsibly to support the **economy**