



# **SATHYABAMA**

**INSTITUTE OF SCIENCE AND TECHNOLOGY  
(DEEMED TO BE UNIVERSITY)**

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**SCHOOL OF MANAGEMENT STUDIES**

**UNIT – I – Business Ethics and CSR – SBAA1503**

## **I. INTRODUCTION**

**Business ethics –Definition, nature, Characteristics - Ethical theories, Causes of unethical behaviour; Ethical abuses - Work ethics- Code of conduct - Public good**

### **INTRODUCTION**

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 behaviour our society accepts." "I don't know what the word means."

### **DEFINITION**

The term "ethics" is derived from the Greek word "ethos" which refers to character or customs or accepted behaviour's. 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 - moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

Ethics is a set of principles or standards of human conduct that govern the behaviour of individuals or organizations. Using these ethical standards, a person or a group of persons or an organization regulate their behaviour to distinguish between what is right and what is wrong as perceived by others

### **BUSINESS ETHICS**

Business ethics is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. It is also known as Corporate ethics. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

### **SOURCES**

The various sources from where ethical values have been evolved. The main sources are

- Religion
- Society
- Legal System
- Genetic inheritance
- Marketplace
- Nature
- Culture

## **CHARACTERISTICS OF BUSINESS ETHICS**

1. Business ethics are based on social values, as the generally accepted norms of good or bad and 'right' and 'wrong' practices.
2. It is based on the social customs, traditions, standards, and attributes.
3. Business ethics may determine the ways and means for better and optimum business performance.
4. Business ethics provide basic guidelines and parameters towards most appropriate perfections in business scenario.
5. Business ethics is concerned basically the study of human behaviour and conducts.
6. Business ethics is a philosophy to determine the standards and norms to make mutual interactions and behaviour between individual and group in organisation.
7. Business ethics offers to establish the norms and directional approaches for making an appropriate code of conducts in business.
8. Business ethics are based on the concepts, thoughts and standards as contributed as well as generated by Indian ethos.
9. Business ethics may be an 'Art' as well as 'Science' also.
10. Business ethics basically inspire the values, standards and norms of professionalism in business for the well-being of customers.
11. Business ethics is to motivate and is consistently related with the concept of service motives for the customers' view point.
12. Business ethics shows the better and perspective ways and means for most excellences in customization.
13. Business ethics aims to emphasize more on social responsibility of business towards society.

## **ELEMENTS OF BUSINESS ETHICS**

### **(i) A Formal Code of Conduct:**

Code of conduct is statements of organizational values. The Sarbanes-Oxley Act, 2002 made it important for businesses to have an ethics code, something in writing which will help the employees know – with both ease and clarity – what is expected of them on the job. The code should reflect the managements desire to incorporate the values and policies of the organization.

**Code of Ethics:**

For every new business incorporated, it is important for the management to have a code of ethics for his business. It is usually unwritten for small businesses. It is basically a buzzword for the employees to observe ethical norms and form the basic rules of conduct. It usually specifies methods for reporting violations, disciplinary action for violation and a structure of the due process to be followed.

A code of ethics must summarize the beliefs and values of the organization. For a large business empire, it is important to hire talent to assist existing personnel with regards to integrity, understanding, responsibility, and cultural norms of the country.

**(ii) Ethics Committee:**

Ethics committees can rise concerns of ethical nature; prepare or update code of conduct, and resolve ethical dilemma in organization. They formulate ethical policies and develop ethical standards.

They evaluate the compliances of the organisation with these ethical standards. The committee members should be conscious about the corporate culture and ethical concise of the organisation.

**The following committees are to be formed:**

- a. Ethics committee at the board level- The committee would be charged to oversee development and operation of the ethics management programme.
- b. Ethics management committee – It will be charged with implementing and administrating an ethics management programme, including administrating and training about policies and procedures, and resolving ethical dilemmas.

**(iii) Ethical Communication System:**

Ethical communication system helps the employees in making enquiries, getting advice if needed and reporting all the wrong done in the organisation.

**Objectives of ethical communication system are:**

- a. To communicate the organizations values and standards of ethical conduct or business to employees.
- b. To provide information to employees on the company's policies and procedures regarding ethical code of conduct.
- c. To help employees get guidance and resolve queries.
- d. To set up means of enquiries such as hotlines, suggestion boxes and e-mail facilities.

Top management can communicate the ethical standards to the lower management which can be further transferred to the operational level.

**(iv) An Ethics Office with Ethical Officers:**

The job of an ethics officer is to communicate and implement ethical policies amongst employees of the organisation. Ethics officer should develop a reputation for credibility, integrity, honesty and responsibility.

**Functions of ethics officer are:**

- a. Assessing the needs and risks that an ethical programme must address.
- b. Develop and distribute code of conduct.
- c. Conduct ethical training programme.
- d. Maintain confidential service to answer employee's questions about ethical issues.
- e. To ensure that organisation is in compliance with governmental regulations.
- f. To monitor and audit ethical conduct.
- g. To take action on possible violation of company's code.
- h. To review and update code in time.

**(v) Ethics Training Programme:**

Any written ethical code will not work unless supported and followed by a proper training programme. Some companies have an in-house training department while others may opt for an out-source expert. To ensure ethical behaviour, a corporate training programme is established which deals in assisting employees to understand the ethical issues that are likely to arise in their workplace.

When new employees are to be recruited, the induction training should be arranged for them. Training will help them to familiarize with company's ethical code of behaviour.

**(vi) A Disciplinary System:**

A disciplinary system should be established in the organisation to deal with ethical violations promptly and severely. If unethical behavior is not properly dealt with, it will result in threatening the entire social system. A company should adopt fair attitude towards everyone without any discrimination.

**(vii) Establishing an Ombudsperson:**

An ombudsperson is responsible to help coordinate development of policies and procedures to institutionalize moral values in the workplace.

**(viii) Monitoring:**

To make an ethical programme, a successful monitoring programme needs to be developed. A monitoring committee is formed. Monitoring can be done by keen observation by ethics officer, surveys and supporting systems.

## **SCOPE OF BUSINESS ETHICS**

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company.

### **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. Organizations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

### **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

### **3. Ethics in Human Resources**

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, trade etc.,
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.

- Occupational safety and health.

Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

#### **4. Ethics in Marketing**

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

#### **5. Ethics of Production**

This area of business ethics deals 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 any product or 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
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food
- Product testing ethics.

The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

#### **NATURE OF BUSINESS ETHICS**

Egoism – is a theory that suggests that an action is morally right if in a given situation all decision makers freely decide to pursue their own self interests. In such it is okay to make a decision that benefits oneself. Important to ensure oneself does not confuse self-interest with selfishness. Enlightened self-interest, we are well aware that any act of self-interest will

reap future benefits for self-interest.

Egoism limitations – Relies on an external mechanism to control individual egoists, it can result in significant short-term harm, an egoist persona may know what they want but not what they need.

Utilitarianism –is a theory that seeks the greatest happiness for the greatest number, the maximum pleasure with the minimum pain. The ultimate consequentialist theory, as it focuses clearly on the consequences of a decision

1. **Ensure legality of business activities:** Business activities must be legal and a business man should not do any kind of illegal activity.
2. **Customer orientation:** All of his operations must be customer oriented. He must bear in his mind that the “customer is the king” So, he should produce and distribute that types of goods and services which can satisfy the customers.
3. **Supplying good quality product:** A businessman must have to ensure the supply of good quality products and services. He has to maintain minimum standard of his product and service.
4. **Price:** Businessman has to claim a reasonable price for his products or services that is under buying capacity of the customers.
5. **Following rules and regulations:** A businessman must have to follow all business-related rules and regulations that is formulated by the government.
6. **Employer-employee relationship:** This is an important issue to build up a friendly relationship between employer and employees in an organization because a success of the organization largely depends on it.
7. **Avoiding fraud and cheating:** A businessman has to avoid unfair means. He should not try to cheat or fraud the customers or general public. He should always practice honesty and sincerity in his activities.
8. **Environmental issues:** in the present world, environmental issues are considered a vital matter. A businessman ensures healthy environment for the insiders as well as the outsiders for running the organization smoothly.
9. **Avoiding artificial shortage:** Some dishonest businessmen create artificial shortage of products and thereby they want to gain more profit. This is not acceptable.
10. **Avoiding harmful competition:** In order to survive in the market successfully, each and every business organization should co-operate with each other. They should avoid harmful competition.



## **COMPANIES WITH BEST ETHICAL CORPORATE POLICIES**

- Google
- Microsoft
- Intel
- TATA Steel
- Wipro Limited

## **ETHICAL THEORIES**

The various ethical theories are

- ▶ Teleological Ethics (Consequentialism)

Ethical Egoism

Hedonism

Utilitarianism

- ▶ Deontology

Kantian

- ▶ Virtue ethics

### **Teleological Ethics**

The Teleological Ethical Theories are concerned with the consequences of actions which means the basic standards for our actions being morally right or wrong depends on the good or evil generated. The teleological theory suggests an action is good or bad depending on its outcome.

It is based on measuring the probable outcome of the consequences of the decisions taken. For instance, most people would agree that telling a lie is wrong. But if telling a lie would help to save a person's life, consequentialism says it's the right thing to do.

### **Ethical Egoism**

Ethical egoism is the normative theory that the promotion of one's own good is in accordance with morality. Each person should focus exclusively on his or her interest. It requires that we promote only our self interest, and not both our interests.

## **Hedonism**

The term hedonism is derived from the Greek word “hedone” which means pleasure. Ethical hedonism is said to have been started by Aristippus of Cyrene, a student of Socrates. It is the idea that each person should do everything in their power to achieve the greatest amount of pleasure possible to them.

There are two types of hedonism

- Psychological hedonism
  - Psychological hedonism is the view that humans are psychologically constructed in such a way that we exclusively desire pleasure.
- Ethical hedonism
  - Ethical hedonism is the view that our fundamental moral obligation is to maximize pleasure or happiness.

## **Utilitarianism**

Utilitarianism is a tradition of ethical philosophy that is associated with Jeremy Bentham and John Stuart Mill (1806 – 1873) British philosophers. Utilitarianism is a normative ethical theory that places the locus of right and wrong solely on the outcomes (consequences) of choosing one actions.

Three Basic Principles of Utilitarianism

- ▶ Pleasure or Happiness Is the Only Thing That Truly Has Intrinsic Value
- ▶ Actions Are Right as they Promote Happiness, Wrong as they Produce Unhappiness
- ▶ Everyone's Happiness Counts Equally.

## **Deontology**

Deontology is a theory that suggests actions are good or bad according to a clear set of rules. Its name comes from the Greek word deon, meaning duty. In moral philosophy, deontological ethics or deontology is the normative ethical theory that the morality of an action should be based on whether that action itself is right or wrong under a series of rules, rather than based on the consequences of the action. It is sometimes described as duty, obligation, or rule-based

ethics. Deontological ethics is commonly contrasted to consequentialism, virtue ethics, and pragmatic ethics. In this terminology, action is more important than the consequences. Kant's theory is an example of a deontological theory.

### **Kantian**

Kantian ethics refers to a deontological ethical theory developed by German philosopher Immanuel Kant. According to these theories, the rightness or wrongness of actions does not depend on their consequences but on whether they fulfill our duty.

### **Virtue ethics**

Virtue ethics is developed by the philosopher Aristotle. Virtue ethics mainly deals with the honesty and morality of a person. It states that practicing good habits such as courage, honesty, ambitious, truthfulness and patience makes a moral and virtuous person. Virtues are admirable qualities that lead to moral excellence

## **UNETHICAL BEHAVIOUR**

The Civil Service Commission of Philippines defined an unethical behaviour as any behaviour prohibited by law. An unethical behaviour would therefore be defined as one that is not morally honourable or one that is prohibited by the law. Many behaviours will fall in the classification including corruption, mail and wire fraud, discrimination and harassment, insider trading, conflicts of interest, improper use of company assets, bribery

## **CAUSES OF UNETHICAL BEHAVIOUR IN WORKPLACE**

### **1. Misusing Company Time**

One of the most regularly revealed “bad behaviours” in the workplace is the misuse of company time. This category includes knowing that one of your colleagues is directing personal business on company time, staff appearing late, extra breaks or fake timesheets. These negative behaviour patterns can rapidly spread to different workers. It can also cultivate hatred amongst colleagues, severely influencing morale and efficiency.

## **2. Unethical Leadership**

Having a personal issue with your boss or manager is a certain thing, yet reporting to a person who is acting dishonestly is another. This may come in a clear form, such as manipulating numbers in a report or sending company money on improper activities; nonetheless, it can also happen more subtly, through bullying, accepting inadequate gifts from suppliers, or requesting that you avoid a standard system just once. With studies demonstrating that managers are responsible for 60 percent of workplace wrongdoing, the abuse of leadership authority is a disastrous reality.

## **3. Lying to Employees**

The quickest way to lose the trust of your employees is to lie to them, but managers do it constantly. One out of every five workers report that their supervisor or manager has lied to them within the previous year.

## **4. Harassment and Discrimination**

Laws require associations to be equivalent to business opportunity employers. Organizations must select a various workplace, authorize policies and training that help an equivalent open-door program, and encourage a situation that is respectful of a wide range of people. Unfortunately, there are still numerous people whose practices break with EEOC rules and regulations. When harassment and discrimination of employees based on ethnicity, race, gender, handicap or age occur, has a moral line been crossed as well as a legitimate one also. Most companies are attentive to maintain a strategic distance from the costly legal and public implications of harassment and discrimination, so you may experience this ethical problem in more delicate ways, from apparently “harmless” offensive jokes by a manager to a more unavoidable “group think” mindset that can be a symptom of a toxic culture. This could be a group mindset toward an “other” group. Your best reaction is to keep up your qualities and repel such intolerant, illegal or unethical group standards by offering an option, inclusive aspect as the best decision for the group and the company.

## **5. Violating Company Internet Policy**

Cyberloafers and Cybershackers are terms used to recognize people who surf the web when they ought to work. It’s a huge, multi-billion-dollar issue for organizations. Every day at least 64 percent of employers visit sites that have nothing to do with their work.

## **6. Pressure to Succeed**

Employees may choose to act unethically based on unrealistic expectations to succeed. For example, a salesperson may make false claims to secure a deal to meet their quota.

### **ETHICAL ABUSES IN BUSINESS**

Corporate ethical/legal abuses include:

- Creative accounting
- Earnings management
- Misleading financial analysis
- Insider trading
- Securities fraud
- Bribery/kickbacks
- Facilitation payments

### **WORK ETHICS**

Work ethic is a value based on hard work and diligence. It is also a belief in the moral benefit of work and its ability to enhance character.

Workers exhibiting a good work ethic in theory would be selected for better positions, more responsibility and ultimately promotion. Workers who fail to exhibit a good work ethic may be regarded as failing to provide fair value for the wage the employer is paying them and should not be promoted or placed in positions of greater responsibility.

### **CHARACTERISTICS OF A GOOD WORK ETHICS**

#### **Reliability**

Reliability goes hand in hand with a good work ethic. If individuals with a good work ethic say they are going to attend a work function or arrive at a certain time, they do, as they value punctuality. Individuals with a strong work ethic often want to appear dependable, showing their employers that they are workers to whom they can turn. Because of this, they put effort

into portraying -- and proving -- this dependability by being reliable and performing consistently.

### **Dedication**

Those with a good work ethic are dedicated to their jobs and will do anything they can to ensure that they perform well. Often this dedication leads them to change jobs less frequently, as they become committed to the positions in which they work and are not eager to abandon these posts. They also often put in extra hours beyond what is expected, making it easy for their employers to see that they are workers who go beyond the rest of the workforce and truly dedicate themselves to their positions.

### **Productivity**

Because they work at a consistently fast pace, individuals with a good work ethic are often highly productive. They commonly get large amounts of work done more quickly than others who lack their work ethic, as they don't quit until they've completed the tasks with which they were presented. This high level of productivity is also due, at least in part, to the fact that these individuals want to appear to be strong workers. The more productive they are, the more beneficial to the company they appear to those managing them.

### **Cooperation**

Cooperative work can be highly beneficial in the business environment, something that individuals with a strong work ethic know well. Because they recognize the usefulness of cooperative practices - such as teamwork -- they often put an extensive amount of effort into working well with others. These individuals commonly respect their bosses enough to work with any individuals with whom they are paired in a productive and polite manner, even if they do not enjoy working with the individuals in question.

### **Character**

Those with a good work ethic often also possess generally strong character. This means they are self-disciplined, pushing themselves to complete work tasks instead of requiring others to intervene. They are also often very honest and trustworthy, as they view these traits as befitting

the high-quality employees they seek to become. To demonstrate their strong character, these workers embody these positive traits daily, likely distinguishing themselves from the rest.

## **CODE OF CONDUCT**

Code of conduct or what is popularly known as Code of Business Conduct contains standards of business conduct that must guide actions of the Board and senior management of the Company.

The Code may include the following:

- Company Values.
- Avoidance of conflict of interest.
- Accurate and timely disclosure in reports and documents that the company files before Government agencies, as well as in Company's other communications.
- Compliance of applicable laws, rules and regulations including Insider Trading Regulations.
- Maintaining confidentiality of Company affairs.
- Non-competition with Company and maintaining fair dealings with the Company.
- Standards of business conduct for Company's customers, communities, suppliers, shareholders, competitors, employees.
- Prohibition of Directors and senior management from taking corporate opportunities for themselves or their families.
- Review of the adequacy of the Code annually by the Board.
- No authority of waiver of the Code for anyone should be given.

The Code of Conduct for each Company summarises its philosophy of doing business. Although the exact details of this code are a matter of discretion, the following principles have been found to occur in most of the companies:

- Use of company's assets;
- Avoidance of actions involving conflict of interest;
- Avoidance of compromising on commercial relationship;
- Avoidance of unlawful agreements;
- Avoidance of offering or receiving monetary or other inducements;

- Maintenance of confidentiality;
- Collection of information from legitimate sources only.
- Safety at workplace
- Maintaining and Managing Records
- Free and Fair competition
- Disciplinary actions

To create a code of ethics, an organization must define its most important guiding values, formulate behavioral standards to illustrate the application of those values to the roles and responsibilities of the persons affected, review the existing procedures for guidance and direction as to how those values and standards are typically applied, and establish the systems and processes to ensure that the code is implemented and effective. Codes of ethics are not easily created from boilerplate. Ideally, the development of a code will be a process in which Boards and senior management actively debate and decide core values, roles, responsibilities, expectations, and behavioral standards.

### **Applicability**

This code is applicable to the Board Members and all employees in and above Officers level (hereinafter collectively referred to as "Employee(s)").

### **PUBLIC GOOD**

A public good refers to a commodity or service that is made available to all members of a society. A public good is a good whereby no individual can be excluded from benefiting from it. In other words, everyone can benefit from its use. This could come in the form of a government public good such as education, or a natural public good such as air.

One of the key aspects of a public good is the fact that anyone can use it, but it doesn't diminish its availability. For instance, one person can use a public streetlamp, yet it doesn't diminish the ability for someone else to also use it.

Public goods are almost always funded publicly through the government. Perhaps the only public goods that aren't, are natural goods such as air, the sun, and such.

Examples of public goods include law enforcement, national defence, and the rule of law. Public goods also refer to more basic goods, such as access to clean air and drinking water.



The two main criteria that distinguish a public good are that it must be non-rivalrous and non-excludable. Non-rivalrous means that the goods do not dwindle in supply as more people consume them; non-excludability means that the good is available to all citizens.

## **CHARACTERISTICS OF PUBLIC GOODS**

### **Non-excludability**

Non-excludability means that the producer of the good is unable to prevent others from using it. For instance, it would be extremely difficult to prevent each person from using a traffic light. Doing so would require extreme levels of management and prevent the use of certain roads. At the same time, non-excludability means customers cannot be directly charged. If we look again at traffic lights, it would be difficult but also chaotic to put in place a system whereby each user pays. So not only is it virtually impossible to prevent use but also collect payment. Public goods such as defence, policing, and the law are all non-excludable. Everyone benefits from policing, which makes it impossible to charge some but not others. In turn, this presents us with the 'free-rider problem'.

### **Free Rider Problem**

The free rider problem is the burden on a shared resource that is created by its use or overuse by people who aren't paying their fair share for it or aren't paying anything at all. The free rider problem can occur in any community, large or small.

The issue with the free-rider problem stems from the fact that if certain individuals are not paying, then the rest will also be reluctant to pay. In turn, a private firm would produce fewer of such goods, resulting in a sub-optimal supply to society. Therefore, the solution would be for the government to pay for it from general taxation.

With public goods, the initial and subsequent costs are generally borne by the taxpayer. As a result, it is the taxpayer who bears the cost whilst others can benefit without paying for it.

The free-rider problem is considered a **market failure** because people are benefiting, yet not paying for the good. As a result, this can lead to an overuse of public goods. For instance, policing and the law are usually overstretched beyond their means.

## Non-rivalry

Non-rivalry is often forgotten when looking at public goods. For instance, many will mistakenly consider universal healthcare as a public good. Whilst there is nothing to stop all citizens accessing it, there is a rivalrous component.

To explain, the more people who take up a bed in a hospital, the fewer there are for other patients. Similarly, the more doctors' appointments taken, the fewer there is available for everyone else.

	<b>Excludable</b>	<b>Non-excludable</b>
<b>Rival</b>	<b>Private goods</b>  Eg: Food, cars, Bottled water	<b>Common-pool resources</b>  Forest, fisheries
<b>Non-Rival</b>	<b>Club goods</b>  Toll Road, Pay TV	<b>Public goods</b>  Defence

**Table 1 : Various types of goods**

## Public Goods vs Private Goods

Private goods and public goods are complete opposites. Whilst public goods are non-rivalrous and non-excludable, private goods are rivalrous and excludable. In other words, public goods are unable to exclude people. By contrast, a private good can exclude people from its use, usually in a monetary fashion. For instance, you have to pay to get into the cinema. The cinema prevents those without a ticket from getting into the theatre. By contrast, there is no feasible way of doing this. That, or it would be incredibly expensive to do so.

Public Goods = Non-rivalrous and Non-excludable

Private Goods = Rivalrous and Excludable

At the same time, private goods are rivalrous. In other words, the more one person consumers, the less there is for others. For instance, cakes in a bakery. There is only a limited quantity at any one time. So, the more customers that purchase doughnuts the fewer are available to others.

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**SCHOOL OF MANAGEMENT STUDIES**

**UNIT – II – Business Ethics and CSR – SBAA1503**

## II. MANAGEMENT OF ETHICS

**Meaning - Ethics analysis - Ethical dilemma - Ethics in practice, ethics for managers - Role and function of ethical managers - Code of ethics - Competitiveness, organizational size, profitability and ethics - Cost of ethics in Corporate - ethics evaluation - Business and ecological / environmental issues in the Indian context and case studies**

### MANAGEMENT ETHICS

‘Management Ethics’ is related to social responsiveness of a firm. It is “the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. It is a standard of behavior that guides individual managers in their works”.

“It is the set of moral principles that governs the actions of an individual or a group.”

### TYPES OF MANAGEMENT ETHICS

**Three types of management ethics are**

#### **1. Immoral management:**

It implies lack of ethical practices followed by managers. Managers want to maximize profits even if it is at the cost of legal standards or concern for employees.

#### **2. Moral management:**

According to moral management ethics, managers aim to maximize profits within the confines of ethical values and principles. They conform to professional and legal standards of conduct. The guiding principle in moral management ethics is “Is this action, decision, or behavior fair to us and all parties involved?”

#### **3. Amoral management:**

This type of management ethics lies between moral and immoral management ethics. Managers respond to personal and legal ethics only if they are required to do so; otherwise there is lack of ethical perception and awareness.

**There are two types of amoral management:**

##### **(a) Intentional:**

Managers deliberately avoid ethical practices in business decisions because they think ethics should be followed in non-business activities.

**(b) Unintentional:**

Managers do not deliberately avoid ethical practices but unintentionally they make decisions whose moral implications are not taken into consideration.

**APPROACHES TO MANAGEMENT ETHICS**

**There are three approaches to management ethics:**

**1. Utilitarian approach:**

In this approach, managers analyze the effects of decisions on people affected by these decisions. The action rather than the motive behind the action is the focus of this approach. Positive and negative results are weighed and managerial actions are justified if positive effects outweigh the negative effects. Pollution standards and analyzing the impact of pollution on society is management ethics code under utilitarian approach.

**2. Moral rights approach:**

In this approach, managers follow ethical code which takes care of fundamental and moral rights of human beings; the right to speech, right to life and safety, right to express feelings etc. In the context of business organizations, managers disclose information in the annual reports necessary for welfare of the people concerned. The nature, timing and validity of information is taken into account while reporting information in the annual reports.

**3. Social justice approach:**

According to this approach, managers' actions are fair, impartial and equitable to all individuals and groups. Employees are not distinguished on the basis of caste, religion, race or gender though distinction on the basis of abilities or production is justified. For example, all employees, males or females with same skills should be treated at par but it is justified to treat employees who produce more differently from those who produce less.

**BARRIERS TO MANAGEMENT ETHICS**

**James A. Waters describe three “Organizational blocks” of management ethics:**

**1. Chain of command:**

If employees know that superiors are not following ethical behavior, they hesitate in reporting the matter up the hierarchy for the fear of being misunderstood and penalized. The chain of command is, thus, a barrier to reporting unethical activities of superiors.

**2. Group membership:**

Informal groups lead to group code of ethics. Group members are strongly bonded by their loyalty and respect for each other and unethical behavior of any member of the group is generally ignored by the rest.

### 3. Ambiguous priorities:

When policies are unclear and ambiguous, employees' behavior cannot be guided in a unified direction. It is difficult to understand what is ethical and what is unethical.

## ETHICAL ANALYSIS (HOSMER MODEL)



**Fig 1 : Hosmer Model**

The view is that a manager should always act in accordance with either a single principle of behavior or a single statement of belief that is "right" and "proper" and "just" in and by itself. This is "moral reasoning": logically working from a first principle through to a decision on the duties we owe to others.

## 7 HOSMER'S PRINCIPLE OF ETHICAL DECISION MAKING

- **Principle of Long-term self-interest**

Never take any action not in your organization's long-term self-interest

- **Principle of Personal Virtue**

Never do anything that is not honest, open, and truthful and that you would never be glad to see reported in the newspapers or on TV

- **Principle of Religious injunction**  
Never take any action that is not kind and that does not build a sense of community.
- **Principle of Government Requirements**  
Never take any action that violates the law, for the law represents the minimal moral standard
- **Principle of Utilitarian benefit**  
Never take any action that does not result in greater good for society
- **Principle of Individual rights**  
Never take any actions that infringes on others agreed-upon rights
- **Principle of Distributive Justice**  
Never take any action that harms the least among us: the poor, the uneducated, the unemployed.

## **ETHICAL DILEMMA**

An ethical dilemma (moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective. Ethical dilemmas can be solved in various ways, for example by showing that the claimed situation is only apparent and does not really exist, or that the solution to the ethical dilemma involves choosing the greater good and lesser evil, or that the whole framing of the problem omits creative alternatives that situational ethics or situated ethics must apply because the case cannot be removed from context and still be understood.

A popular ethical conflict is that between an imperative or injunction not to steal and one to care for a family that you cannot afford to feed without stolen money. Debates on this often revolve around the availability of alternate means of income or support such as a social safety net, charity, etc. The debate is in its starkest form when framed as stealing food. Under an ethical system in which stealing is always wrong and letting one's family die from starvation is always wrong, a person in such a situation would be forced to commit one wrong to avoid committing another, and be in constant conflict with those whose view of the acts varied.

However, there are no legitimate ethical systems in which stealing is more wrong than letting one's family die. Ethical systems do in fact allow for, and sometimes outline, trade-offs or priorities in decisions. Resolving ethical dilemmas is rarely simple or clear cut and very often involves revisiting similar dilemmas that recur within societies.

## **HOW TO SOLVE AN ETHICAL DILEMMA**

The biggest challenge of an ethical dilemma is that it does not offer a solution that would comply with ethical norms. Throughout the history of humanity, people have faced such dilemmas and philosophers aimed and worked to find solution

The following approaches to solve an ethical dilemma were deducted:

- Refute the paradox (dilemma): The situation must be carefully analysed. In some cases, the existence of the dilemma can be logically refuted.
- Value theory approach: Choose the alternative that offers the greater good or the lesser evil.
- Find alternative solutions: In some cases, the problem can be reconsidered and new alternative solutions may arise.

## **ETHICS IN PRACTICE**

- Human dignity, human rights and justice, which refers to the duty to promote universal respect for the human person. In the context of fisheries, this principle relates, for example, to fishers' self-determination, access to fishing resources and the right to food. It is best represented by a rights-based approach in ethics that emphasizes the protection of the personal domain of each individual. It may require, however, the establishment of individual or community rights, the exact nature of which will depend on local conditions.

- Beneficence, which concerns human welfare, reducing the harms and optimizing the benefits of social practices. In the context of fisheries, this principle needs to be observed when the effects of policies and practices upon the livelihoods of fishing communities are evaluated. The principle relates to working conditions (safety on board), as well as food quality and safety. The issue of genetically modified organisms should also be addressed in this context (FAO, 2001b). This principle invites an ethical approach to fisheries that puts consequences to general welfare in focus.

- Cultural diversity, pluralism and tolerance, which relates to the need to take different value systems into account within the limits of other moral principles. The pressing moral issues in fisheries take different shapes across different cultures, and it is an important moral demand that people themselves define how their interests are best served in a particular cultural setting. This



principle squares well with dialogical ethics, which stresses the actual participation of those concerned.

- Solidarity, equity and cooperation, which refers to the importance of collaborative action, sharing scientific and other forms of knowledge, and non-discrimination. In the context of fisheries, this principle underpins the moral imperative to eradicate poverty in developing countries and ensure equity within fisheries and between sectors. It also requires transparent policies and stresses the need to reduce the gap between producers and consumers. This principle is relevant at the level of policy as well as at the individual level of virtues and professional duties to further trust and tolerance among stakeholders.

- Responsibility for the biosphere, which concerns the interconnections of all life forms and the protection of biodiversity. This principle stresses that ecosystem well-being is a sine qua non condition of sustainable fisheries providing for the needs of future generations, as well as for the lives of those who currently rely on the natural environment and are responsible for its use. This principle combines ethical reasoning based on rights and on consequences for human welfare, as well as on individual virtues and duties to respect the environment.

## **ROLE OF MANAGERS**

The role managers must play in implementing internal ethical standards and aligning the organization with external standards

- ▶ Make sure those who report to you have read and understand the Code
- ▶ Exercise appropriate supervision and oversight to ensure compliance with the Code within your area of responsibility
- ▶ Anticipate, prevent and detect compliance risks
- ▶ Promptly report and address any compliance violations or weaknesses, including taking appropriate disciplinary action
- ▶ Enforce the Code and related policies and procedures consistently
- ▶ Support your employees who, in good faith, raise issues or concerns
- ▶ Ensure that none of your employees are retaliated against for making good faith reports

- ▶ Managers hold positions of authority that make them accountable for the ethical conduct of those who report to them.
- ▶ Managers monitor the behavior of employees in accordance with the organization's expectations of appropriate behavior, and they have a duty to respond quickly and appropriately to minimize the impact of suspected ethical violations.
- ▶ Managers may also be subject to a particular code of professional ethics, depending on their position and training. Fiduciary duty is an example that applies to some managerial roles.

## **HOW TO BE AN ETHICAL MANAGER**

Ethical managers are those who continuously practice the following behaviors.

Remaining committed to honesty, fairness, and excellent work ethics.

Valuing employees as individuals as well as workers.

Knowing that how objectives are met is just as important as meeting objectives.

Modeling ethical behavior like not shifting blame, not playing favorites, and not trying to outdo the deeds of others.

Looking out for others, and always taking their interests and needs into account.

### **Managers and Ethics in Organizations**

Many managers find it difficult to speak about and sometimes even recognize ethical issues, a difficulty that the management theorists James Waters and Frederick Bird called the moral muteness of managers. Recognizing that management is an inherently ethical task and that the practices of the company embody a set of values or ethics, the management scholar Jeanne Liedtka suggests that there does exist a set of ethically based management practices that can help managers lead their companies effectively and so that they are competitive. By examining numerous organizational improvement initiatives, she determined that they shared common practices and common sets of values that could help an organization achieve its goals most effectively.

The ethics of effective and competitive business practices identified by Jeanne Liedtka include creating a shared sense of meaning, vision, and purpose that connect the employees to the organization and are underpinned by valuing the community without subordinating the individual and seeing the community's purpose as flowing from the individuals involved. A

second characteristic that ethical leadership can provide is developing in employees a systems perspective, which is linked to the post conventional stages of cognitive and moral reasoning discussed above, so that a value of serving other community members and related entities in the broader ecosystem emerges. Another theme is that of emphasizing business processes rather than hierarchy and structure, which is based on valuing work itself intrinsically and focusing on both ends and means in decision making, not just the ends. Localized decision making, particularly around work processes, provides a value of responsibility for individual actions, and using information within the system is supported by values of truth telling, integrity, and honesty, the characteristics of moral persons, as well as transparency about and access to needed information.

## **CODE OF ETHICS**

A code of ethics is a guide of principles designed to help professionals conduct business honestly and with integrity.

### **Compliance-based codes of ethics**

Compliance-based codes of ethics not only set guidelines for conduct but also determine penalties for violations.

This type of code of ethics is based on clear-cut rules and well-defined consequences rather than individual monitoring of personal behavior

### **Value Base Code of Ethics**

A value-based code of ethics addresses a company's core value system.

Value-based ethical codes may require a greater degree of self-regulation than compliance-based codes.

## **COMPETITIVENESS**

Any organization, public or private, large or small, faces internal and external uncertainties that affect its ability to achieve its objectives. The effect of uncertainty on an organization's objectives is "risk." Risk management, commonly known in the business community as enterprise risk management (ERM), can provide for the structured and explicit consideration of all forms of uncertainty in making any decision. The overarching principle of ERM is that it must produce value for the organization. It is the culture, processes and structures that is directed towards taking advantage of potential opportunities while managing potential adverse effects.

Corporations face the task of managing their risk exposures while remaining profitable and competitive at the same time. Managing risks is not a new challenge, yet it may get overlooked due to several reasons. The challenges and demands of contemporary markets, customer expectations, regulatory authorities, employees and shareholders present organizations with an interesting array of contradictions.

Risk management can enhance the environment for identifying and capitalizing on opportunities to create value and protect established value. Efficient managers who undertake risk, use a variety of risk management solutions that transcends through traditional insurance risk transfer products.

Risk basically refers to the variations in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero. The greater the variation, the greater the risk. Risk may also be defined as the possibility that an event will occur and adversely affect the achievement of the Company's objectives and goals. A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets.

**Risks may be broadly classified under the following heads:**

**(a) Industry & Services Risks:**

These risks can be broadly categorized as follows, namely:

- Economic risks such as dependence on one product, one process, one client, one industry, etc. in the short and long term.
- Services risks
- Market structure
- Business dynamics
- Competition risks affecting tariffs prices, costs, revenues and customer preferences
- Customer relations risks
- Reputational risk

**(b) Management and Operations Risks:**

These risks relate broadly to the company's organisation and management such as planning, monitoring, and reporting systems in the day to day management process

namely:

- Risks to Property
- Clear and well defined work processes
- Changes in Technology/upgradation
- R&D risks
- Agency Network Risks
- Personnel risks such as labour turnover risks involving replacement risks, training risks, cost risks, skill risks etc. There are also unrest risks due to strikes and lockouts. These risks affect the company's business and earnings.
- Environmental and Pollution Control regulations, etc.
- Locational benefits near metros, railway stations, ports, cities, etc.

**(c) Market Risks:**

These risks relate to market conditions namely:

- Raw material rates
- Quantities, quality, suppliers, lead time, interest rates risks and forex risks namely, fluctuation risks and interest rate risk in respect of foreign exchange transactions.

**(d) Political Risks:**

These risks relate to political uncertainties namely:

- Elections
- War risks
- Country/Area risks
- Insurance risks like fire, strikes, riots and civil commotion, marine risks, cargo risks, etc.
- Fiscal/Monetary Policy Risks including Taxation risks.

**(e) Credit Risks:**

These risks relate to commercial operations namely:

- Creditworthiness risks
- Risks in settlement of dues by clients
- Provisions for doubtful and bad debts

**(f) Liquidity Risks:**

These are financial risk factors namely:

- Financial solvency and liquidity risks
- Borrowing limits, delays
- Cash/Reserve management risks
- Tax risks.

**(g) Disaster Risks:**

These risks relate to disasters from following factors:

- Natural risks like fires, floods, earthquakes, etc.
- Man-made risks arising under the Factories Act, Mines Act, etc.
- Risk of failure of effective Disaster Management plans formulated by the company.

**(h) Systems Risks:**

These risks relate to the company's systems namely:

- System capacities
- System reliability
- Obsolescence risks
- Data Integrity risks

**ORGANIZATION SIZE**

An organization's structure is important to the study of business ethics. In a Centralized organization, decision-making authority is concentrated in the hands of top- level managers, and little authority is delegated to lower levels. Responsibility, both internal and external, rests with top management. This structure is especially suited for organizations that make high-risk decisions and whose lower- level managers are not highly skilled in decision making. It is also suitable for organizations in which production processes are routine and efficiency is of primary importance.

These organizations are usually extremely bureaucratic, and the division of labour is typically very well defined. Each worker knows his or her job and what is specifically expected, and each has a clear understanding of how to carry out assigned tasks. Centralized organizations stress

formal rules, policies, and procedures, backed up with elaborate control systems. Their codes of ethics may specify the techniques to be used for decision making.

Because of their top-down approach and the distance between employee and decision maker, centralized organizational structures can lead to unethical acts. If the centralized organization is very bureaucratic, some employees may behave according to "the letter of the law" rather than the spirit.

In a decentralized organization, decision-making authority is delegated as far down the chain of command as possible. Such organizations have relatively few formal rules, and coordination and control are usually informal and personal. They focus instead on increasing the flow of information. As a result, one of the main strengths of decentralized organizations is their adaptability and early recognition of external change. With greater flexibility, managers can react quickly to changes in their ethical environment.

Weakness of decentralized organizations is the difficulty they have in responding quickly to changes in policy and procedures established by top management. In addition, independent profit centers within a decentralized organization may deviate from organizational objectives.

## **PROFITABILITY & ETHICS**

In the fallout from Enron and others, many investors are paying closer attention to a company's ethics, as well as their profits. These investors realize that a corporate focus on profits alone with little regard to ethical standards, conduct and enforcement—may result in short-term revenue gain, but long-term profitability may be limited. In cases like Enron, long-term viability is limited too.

Consider this balance between profits and ethics to be "ethical profitability." Well-balanced companies not only consistently reward owners, investors and employees with profitable performance, they also genuinely focus on these five key areas:

### **Leadership by example**

The chasm between managing and managing well is wide and deep. To manage is to merely lead employees. To manage well is to lead employees effectively, ethically and without arrogance. Company owners, executives and managers must set the highest examples of attitude and conduct for their employees. "Do what I say, not what I do," is a parental anachronism with no value in management.

### **Company-wide ethical awareness**

Most employees, when not at work, practice personal ethics in areas such as caring for others, being kind and honest, and not harming others. In-the-office ethical behavior includes demonstrating trustworthiness to managers and coworkers, respecting privacy and avoiding conflicts of interest. Ethics knows no time clock.

Occasional classes can help, by reminding employees of the simplicity of determining ethical behavior. In a nutshell, examine questionable action and speech, and determine if it's harmful to yourself or another. If it is, avoid that behavior. Employees with any sort of religious background will recognize this ethic of reciprocity as familiar. The Bible's Golden Rule is a good example.

### **Strong management of revenue generation and reporting**

Corporate temptation to stretch ethical behavior in revenue generation and reporting is universal. From excessive cost-cutting to expand short-term market-share, to outright lies about revenue to positively affect stock price, it's easy to see why an otherwise intelligent, educated corporate officer can end up behind bars for condoning such behavior. To overcome these temptations, revenue-related managers must establish and maintain a firm stance on ethical marketing, advertising, selling and reporting. This requires regular dissemination and enforcement of codes of conduct.

### **High level of internal trust**

The level of trust within a company should reflect the level of trust the company solicits from customers. If customers are encouraged to put their complete trust in the product or service, then company teams must do the same with each other. Management must guide this internal process. An increase in trust is a reduction in risk and uncertainty, which in turn will keep the revenue generation process flowing smoothly. Another advantage of running a high-trust organization is improved internal flexibility and creativity. Instead of being constantly monitored, the person to whom a task is assigned can accomplish it the best way possible. The outcome is never in doubt because of the trust the team shares.

### **Formal and active compliance program**

Ethical profitability is far more than merely operating within the boundaries of the law. Legal compliance limits unethical behavior, but it does not define ethical behavior. An organizational ethics doctrine does have legal benefits. Properly written, published and disseminated ethical codes will reduce corporate risk if an employee creates a criminal or civil problem because of



poor ethical behavior. (Even federal sentencing guidelines recommend lower fines if such violations occur contrary to the existence and enforcement of compliance codes.)

The true test of ethical profitability is whether or not the company is a positive example to its employees, to its customers and even to other companies. Such companies practice the truest form of leadership-by-example.

### **COST OF ETHICS IN CORPORATE**

Operating in an ethical way may incur additional costs to a business when compared with other retailers and companies who may not do business in the same way. For example, Primark bears the cost of carrying out all audits. Then there are its costs associated with working with ethical partners.

Cost-benefit analysis (CBA) involves the practical application of modern welfare economics to public policy. It aims to account for the positive and negative consequences (benefits and costs) of economic activities by converting them into monetary flow to determine which activity yields the greatest gain for society. The focus is on cost-benefit analysis as applied to environmental, safety, and health regulation.

### **Issues that limit with pricing decisions**

- **Unfair trade practices**
  - Laws that prohibit wholesalers and retailers from selling below cost.
- **Price Fixing**
  - Price Fixing An agreement between business competitors to sell the same product or service at the same price.
- **Price Discrimination**
  - A seller price discriminates when it charges different prices to different buyers. The Legality and Ethics of Price Strategy

### **Transparency in business**

Transparency is an important part of this process. Transparency means the business is open to people seeing how it manages its relationships with suppliers. In turn, suppliers practices also need to be transparent. The alternative would be for an organization to ignore ethical behaviour. However, this would rapidly lead to a decline in brand reputation and consumers could move to purchasing from competing retailers behaving more ethically. Operating in the 'right way' is therefore not just appropriate for ethical reasons, but is also good business practice.

## **ETHICS EVALUATION**

**Ethical — Evaluation** should not reflect personal or sectoral interests.

Evaluators must have professional integrity, respect the rights of institutions and individuals to provide information in confidence, and be sensitive to the beliefs and customs of local social and cultural environments.

When considering an ethical issues it is advised that you follow a stepwise approach in your decision-making process

Recognize there is an issue

Identify the problem and who is involved

Consider the relevant facts, laws and principles

Analyze and determine possible courses of action

Implement the solution

Evaluate and follow up

## **BUSINESS AND ECOLOGICAL / ENVIRONMENTAL ISSUES IN THE INDIAN CONTEXT AND CASE STUDIES**

There are many environmental issues in India. Air pollution, water pollution, garbage domestically prohibited goods and pollution of the natural environment are all challenges for India. Nature is also causing some drastic effects on India. The situation was worse between 1947 through 1995. According to data collection and environment assessment studies of World Bank experts, between 1995 through 2010, India has made some of the fastest progress in addressing its environmental issues and improving its environmental quality in the world. Still, India has a long way to go to reach environmental quality similar to those enjoyed in developed economies. Pollution remains a major challenge and opportunity for India. Environmental issues are one of the primary causes of disease, health issues and long term livelihood impact for India.

Major environmental issues are forests and agricultural degradation of land, resource depletion (such as water, mineral, forest, sand, and rocks), environmental degradation, public health, loss of biodiversity, loss of resilience in ecosystems, livelihood security for the poor.

The major sources of pollution in India include the rapid burning of fuelwood and biomass such as dried waste from livestock as the primary source of energy, lack of organised garbage and

waste removal services, lack of sewage treatment operations, lack of flood control and monsoon water drainage system, diversion of consumer waste into rivers, cremation practices near major rivers, government mandated protection of highly polluting old public transport, and continued operation by Indian government of government-owned, high emission plants built between 1950 and 1980.

Air pollution, poor management of waste, growing water scarcity, falling groundwater tables, water pollution, preservation and quality of forests, biodiversity loss, and land/soil degradation are some of the major environmental issues India faces today.

India's population growth adds pressure to environmental issues and its resources. Rapid urbanization has caused a buildup of heavy metals in the soil of the city of Ghaziabad, and these metals are being ingested through contaminated vegetables. Heavy metals are hazardous to people's health and are known carcinogens.

- Acidification (includes algal bloom, coral reef loss, etc.)
- Air quality (air pollution, ozone pollution, ties to human health with asthma, diesel emissions, etc.)
- Biodiversity (conservation of biological diversity)
- Climate change (encompasses "global warming", greenhouse effect, loss of glaciers, climate refugees, climate justice, equity, etc)
- Conservation (nature and animal conservation, etc.)
- Consumerism (linking the state of consumers within the economy to environmental degradation and social malaise, planned obsolescence)
- Deforestation (illegal logging, impact of fires, rapid pace of destruction, etc.)
- Desertification
- Eco-tourism
- Endangered species / threatened species (CITES, loss of species, impact of chemical use on species, cultural use, species extinction, invasive species, etc.)
- Energy (use, conservation, extraction of resources to create energy, efficient use, renewable energy, etc.)
- Environmental degradation

- Environmental health (poor environmental quality causing poor health in human beings, bio-accumulation, poisoning)
- Environmental impact assessment (one major current form of assessing human impact on the environment)
- Food safety (including food justice, impacts of additives, etc.)
- Genetic engineering or modification (includes GMOs)
- Global environmental issues (in recognition that environmental issues cross borders)
- Global Warming
- Grassroots solutions (local and regional environmental issues solved from the bottom-up)
- Habitat loss (destruction, fragmentation, changed use)
- Intergenerational equity (recognition that future generations deserve a healthy environment)
- Intensive farming
- Invasive species (weeds, pests, feral animals, etc.)
- Land degradation
- Land use planning / Land use (includes urban sprawl)
- Natural catastrophes (linked to climate change, desertification, deforestation, loss of natural resources such as wetlands, etc.)
- Nuclear power, waste and pollution
- Over-exploitation of natural resources (plant and animal stocks, mineral resources (mining), etc.)
- Overfishing (depletion of ocean fish stocks)
- Ozone depletion (CFCs, Montreal Protocol)
- Pollution (air, water, land, toxins, light, point source and non-point source, use of coal/gas/etc., reclaimed land issues)
- Population issues (overpopulation, access to reproductive control (reproductive health), etc.)
- Reduce, reuse, recycle (and refuse) (ways to reduce impact, minimise footprint, etc.)
- Soil conservation (includes soil erosion, contamination and salination of land, especially fertile land; see also desertification and deforestation)

- Sustainability (finding ways to live more sustainably on the planet, lessening human footprint, increasing human fulfillment with less impact) (see also sustainable development and poverty alleviation)
- Toxic chemicals (persistent organic pollutants, prior informed consent, pesticides, endocrine disruptors, etc.)
- Waste (landfills, recycling, incineration, various types of waste produced from human endeavors, etc.)
- Water pollution (fresh water and ocean pollution, Great Pacific Garbage Patch, river and lake pollution, riparian issues)
- Water scarcity

### **SOME ENVIRONMENTAL ISSUES**

#### ➤ **Bio diversity**

- ▶ The number of living things in an environment
- ▶ More bio diversity leads to stronger ecosystem
- ▶ When biodiversity is not preserved, animals become threatened, endangered or extinct
- ▶ Solution to protect biodiversity is to pass laws which can protect species and endangered species

#### ➤ **Over population**

- ▶ The current population in India as on 2020 is 13.80 crores approximately
- ▶ Larger population leads to more scarcity of resources
- ▶ Solution to avoid overpopulation
  - ▶ Education
  - ▶ Fight against poverty

#### ➤ **Acid Rain**

- ▶ Acid rain, or acid deposition, is a broad term that includes any form of precipitation with acidic components, such as sulfuric or nitric acid that fall to the ground from the atmosphere in wet or dry forms. This can include rain, snow, fog, hail or even dust that is acidic.
- ▶ Issues in acid rain
  - ▶ Acid rain destroys crops and plant life
  - ▶ It can affect drinking water
  - ▶ Acid breakdown carbonate on tombstones and statues
- ▶ Solution

- ▶ Burn less sulfur coal
- ▶ Develop alternative energies

## RECENT CASE STUDY – ENVIRONMENTAL ISSUES

### VISAKHAPATNAM GAS LEAK CASE STUDY

A gas leak has affected five villages in Visakhapatnam in Andhra Pradesh.

- The source of the gas leak was a **styrene plant** owned by South Korean electronics giant LG located in the area.
- The possible reason for gas leak is **stagnation and changes in temperature** inside the storage tank that could have resulted in **auto polymerization** (chemical reaction) **and vapourisation** of the styrene.

Styrene

- **Description:**

Styrene is an **organic compound** with the formula **C<sub>8</sub>H<sub>8</sub>**.

- It is a **derivative of benzene (C<sub>6</sub>H<sub>6</sub>)**.

- It is stored in factories as a liquid, but evaporates easily, and has to be kept at temperatures under 20°C.

- **Sources:**

Styrene is found in vehicle exhaust, cigarette smoke, and in natural foods like fruits and vegetables.

- **Uses:**

It is a flammable liquid that is used in the manufacturing of polystyrene plastics, fiberglass, rubber, and latex.

- **Risk of Exposure:**

**Short Term Exposure:** It can result in respiratory problems, irritation in the eyes, irritation in the mucous membrane, and gastrointestinal issues.

- **Long-Term Exposure:** It could drastically affect the central nervous system and lead to other related problems like peripheral neuropathy. It could also lead to cancer and depression in some cases.

- **State of Chemical Disaster Risk in India**

- According to the **National Disaster Management Authority (NDMA)**, in the recent past, over 130 significant chemical accidents have been reported in the country.
- Further, there are thousands of registered hazardous factories and unorganised sectors dealing with numerous ranges of hazardous material posing serious and complex levels of disaster risks.
  - There are over 1861 **Major Accident Hazard (MAH) units** spread across 301 districts and 25 states and three Union Territories in all zones of the country.
  - The Major Accident is defined as an incident involving loss of life inside or outside the site or ten or more injuries.
  - Further it also involves the release of toxic chemical or explosion or fire or spillage of hazardous chemical resulting in ‘on-site’ or ‘off-site’ emergencies leading to adverse effects to the environment.

#### **Laws to Protect Against Chemical Disasters in India**

- **Laws Before and During Bhopal Gas Tragedy (1984):**At the time of the Bhopal gas tragedy, the Indian Penal Code (IPC) was the only relevant law specifying criminal liability for such incidents.
- **Laws After Bhopal Gas Tragedy (1984):**Bhopal Gas Leak (Processing of Claims) Act, 1985 : It gives powers to the central government to secure the claims arising out of or connected with the Bhopal gas tragedy.Under the provisions of this Act, such claims are dealt with speedily and equitably.
- **The Environment Protection Act, 1986:** It gives powers to the central government to undertake measures for improving the environment and set standards and inspect industrial units.
- **The Public Liability Insurance Act, 1991:** It is an insurance meant to provide relief to persons affected by accidents that occur while handling hazardous substances.
- **The National Environment Appellate Authority Act, 1997:** Under this Act, the National Environment Appellate Authority can hear appeals regarding the restriction of areas in which any industries, operations or processes or class of industries shall not be carried out or shall be carried out subject to certain safeguards under the Environment (Protection) Act, 1986.

- **National Green Tribunal, 2010:** It provided for the establishment of the National Green Tribunal for effective and expeditious disposal of cases related to environmental protection and conservation of forests.
- According to PRS legislative, any incident similar to the Bhopal gas tragedy will be tried in the National Green Tribunal and most likely under the provisions of the Environment (Protection) Act, 1986.
- If an offence is committed by a company then every person directly in charge and responsible will be deemed guilty, unless he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such an offence.

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**SCHOOL OF MANAGEMENT STUDIES**

**UNIT – III – Business Ethics and CSR – SBAA1503**

### **III. ETHICS IN BUSINESS ENVIRONMENT**

**Political, legal environment - Provisions of the Indian constitution pertaining to Business - Political setup - characteristics and their implications for business - Prominent features of MRTP & FERA – Social, cultural environment, their impact on business operations, Salient features of Indian culture and value - Economic Environment - Main features of Economic Planning with respect to business**

#### **POLITICS**

Politics as a term is generally applied to the art or science of running governmental or state affairs, including behavior with civil governments.

#### **CODE OF ETHICS FOR POLITICIANS**

- Tell the truth.
- Take Responsibility
- Listen
- Criticize the argument and not the person
- Don't make promises you can't keep
- Spend fairly

#### **POLITICAL ENVIRONMENT**

Political stability in a country is essential for a stable economy and stock market. Also, various political groups also hold a lot of influence on businesses and unions. So the political environment of a country is a major factor in the success of a firm. In politics, an election year is an extremely important factor for the economy. This is why the type of government governing at the centre and the state has a huge impact on the businesses.

#### **POLITICAL ETHICS**

**Political ethics** (also known as **political morality** or **public ethics**) is the practice of making moral judgements about political action and political agents. It covers two areas. The first is the ethics of process (or the ethics of office), which deals with public officials and the methods they use. The second area, the ethics of policy (or ethics and public policy) concerns judgments about policies and laws.

The concept political morality can be easily understood when knowing what the roots of the term are and the gradual development. The values and expectations of political morality are derived from the principles of justice. John Rawls defends the proposed idea that political conception of justice is ultimately based on not only the values those are expected to follow, but most importantly, the common good of an individual.

Personal morality is also factored into public morality as discussed in the previous section. However, given the Liberal democracy present in the United States, public morality is often referred to as 'formal'. Abiding by the order of law, in addition maintaining respect are simply two critical factors in order to achieve the concept of public morality. These elements are expected when an individual is actively participating in the political sphere, and ultimately required for the behavior of political authorities. Each citizen has their own belief and morals toward a particular controversial topic, nonetheless it is the political authorities duty to respect others' belief and advocate for their constituents beliefs while following the law and constitution.

In the other area of political ethics, the key issues are not the conflict between means and ends but the conflicts among the ends themselves. For example, in the question of global justice, the conflict is between the claims of the nation state and citizens on one side and the claims of all citizens of the world. Traditionally, priority has been given to the claims of nations, but in recent years thinkers known as cosmopolitans have pressed the claims of all citizens of the world.

Political ethics deals not mainly with ideal justice, however, but with realizing moral values in democratic societies where citizens (and philosophers) disagree about what ideal justice is. In a pluralist society, how if at all can governments justify a policy of progressive taxation, affirmative action, the right to abortion, universal healthcare, and the like? Political ethics is also concerned with moral problems raised by the need for political compromise, whistleblowing, civil disobedience, and criminal punishment.

### **IMPORTANCE OF POLITICAL ETHICS**

- Ethics should be an integral part of politics.
- Citizens began to demand ethical behavior their business and political leaders.

## **LEGAL ENVIRONMENT**

A sound legal system is essential to the success of any business. So a country must have a sound and functioning legal system with laws that equally protect both consumers and manufacturers. There are various other matters like company law, royalties law, patent law, intellectual property rights. International laws etc that also have a great influence on the business of firms. For example, the new GST laws are going to have a significant effect on the businesses.

## **LEGAL ETHICS**

Legal ethics encompasses an ethical code governing the conduct of persons engaged in the practice of law and persons more generally in the legal sector. Each state or territory has code of professional conduct dictating rules of ethics. These may be adopted by the respective state legislatures and/or judicial systems. In India, under the Advocates Act of 1961, the Bar Council of India is responsible for creating rules for registering advocates, regulation of legal ethics, and for administering disciplinary action.

## **LEGAL MALPRACTICE**

Legal malpractice is the term for negligence, breach of fiduciary duty, or breach of contract by a lawyer during the provision of legal services that causes harm to a client. A common example of legal malpractice involves the lawyer's missing a deadline for filing a paper with the court or serving a paper on another party, where that error is fatal to the client's case or causes the client to spend more money to resolve the case than would otherwise have been required. For example, a lawyer may commit malpractice by:

- After being retained to file a claim or lawsuit, failing to file a case before the statute of limitations expires.
- Failing to respond to potentially dispositive motions filed by the opposing party.
- Failing to timely file a notice of appeal.

Malpractice may also occur as the result of a breach of the contract pursuant to which the client is represented by the attorney.

## **FIDUCIARY DUTY**

A fiduciary duty is a legal term describing the relationship between two parties that obligates one to act solely in the interest of the other. A fiduciary duty is an obligation to act in the best interest of another party. For instance, a corporation's board member has a fiduciary duty to the shareholders, a trustee has a fiduciary duty to the trust's beneficiaries, and an attorney has a fiduciary duty to a client.

## **ENVIRONMENTAL ETHICS**

Environmental ethics is a branch of ethics that studies the relation of human beings and the environment and how ethics play a role in this. Environmental ethics believe that humans are a part of society as well as other living creatures, which includes plants and animals. These items are a very important part of the world and are considered to be a functional part of human life.

Every life form is unique, and has intrinsic value, regardless of its perceived value to humans.

- We should have a profound respect for nature
- We must maintain a harmonious relationship with other species.
- Everyone should take responsibility for his impact on nature
- Local and indigenous environmental knowledge should be respected
- We must plan for long term

## **ENVIRONMENTAL ISSUES**

- ▶ Air pollution from smoke and various chemicals kills 3 million people a year, according to a new Cornell study.
- ▶ With 1.2 billion people lacking clean water, waterborne infections account for 80 percent of all infectious diseases.
- ▶ Climate change disasters kill around 3,00,000 people a year and cause about \$125 billion in economic losses, mainly from agriculture.

## **ENVIRONMENTAL ACTS IN INDIA**

### **The Air (Prevention and Control of Pollution) Act, 1981**

The Air (Prevention and Control of Pollution) Act, 1981 (the "Air Act") is an act to provide for the prevention, control and abatement of air pollution and for the establishment of Boards at the Central and State levels with a view to carrying out the aforesaid purposes.

To counter the problems associated with air pollution, ambient air quality standards were established under the Air Act. The Air Act seeks to combat air pollution by prohibiting the use of polluting fuels and substances, as well as by regulating appliances that give rise to air pollution. The Air Act empowers the State Government, after consultation with the SPCBs, to declare any area or areas within the State as air pollution control area or areas. Under the Act, establishing or operating any industrial plant in the pollution control area requires consent from SPCBs. SPCBs are also expected to test the air in air pollution control areas, inspect pollution control equipment, and manufacturing processes.

### **The Water (Prevention and Control of Pollution) Act, 1974**

The Water Prevention and Control of Pollution Act, 1974 (the "Water Act") has been enacted to provide for the prevention and control of water pollution and to maintain or restore wholesomeness of water in the country. It further provides for the establishment of Boards for the prevention and control of water pollution with a view to carry out the aforesaid purposes. The Water Act prohibits the discharge of pollutants into water bodies beyond a given standard, and lays down penalties for non-compliance. At the Centre, the Water Act has set up the CPCB which lays down standards for the prevention and control of water pollution. At the State level, SPCBs function under the direction of the CPCB and the State Government.

Further, the Water (Prevention and Control of Pollution) Cess Act was enacted in 1977 to provide for the levy and collection of a cess on water consumed by persons operating and carrying on certain types of industrial activities. This cess is collected with a view to augment the resources of the Central Board and the State Boards for the prevention and control of water pollution constituted under the Water (Prevention and Control of Pollution) Act, 1974. The Act was last amended in 2003.

### **The Environment Protection Act, 1986**

The Environment Protection Act, 1986 (the "Environment Act") provides for the protection and improvement of environment. The Environment Protection Act establishes the framework for studying, planning and implementing long-term requirements of environmental safety and laying down a system of speedy and adequate response to situations threatening the environment. It is an umbrella legislation designed to provide a framework for the coordination of central and state authorities established under the Water Act, 1974 and the Air Act. The term "environment" is understood in a very wide term under s 2(a) of the Environment Act. It includes water, air and land as well as the interrelationship which exists between water, air and land, and human beings, other living creatures, plants, micro-organisms and property.

Under the Environment Act, the Central Government is empowered to take measures necessary to protect and improve the quality of environment by setting standards for emissions and discharges of pollution in the atmosphere by any person carrying on an industry or activity; regulating the location of industries; management of hazardous wastes, and protection of public health and welfare. From time to time, the Central Government issues notifications under the Environment Act for the protection of ecologically-sensitive areas or issues guidelines for matters under the Environment Act.

In case of any non-compliance or contravention of the Environment Act, or of the rules or directions under the said Act, the violator will be punishable with imprisonment up to five years or with fine up to Rs 1,00,000, or with both. In case of continuation of such violation, an additional fine of up to Rs 5,000 for every day during which such failure or contravention continues after the conviction for the first such failure or contravention, will be levied. Further, if the violation continues beyond a period of one year after the

date of conviction, the offender shall be punishable with imprisonment for a term which may extend to seven years.

### **Hazardous Wastes Management Regulations**

Hazardous waste means any waste which, by reason of any of its physical, chemical, reactive, toxic, flammable, explosive or corrosive characteristics, causes danger or is likely to cause danger to health or environment, whether alone or when in contact with other wastes or substances.

There are several legislations that directly or indirectly deal with hazardous waste management. The relevant legislations are the Factories Act, 1948, the Public Liability Insurance Act, 1991, the National Environment Tribunal Act, 1995 and rules and notifications under the Environmental Act. Some of the rules dealing with hazardous waste management are discussed below:

- **Hazardous Wastes (Management, Handling and Transboundary) Rules, 2008**, brought out a guide for manufacture, storage and import of hazardous chemicals and for management of hazardous wastes.
- **Biomedical Waste (Management and Handling) Rules, 1998**, were formulated along parallel lines, for proper disposal, segregation, transport, etc, of infectious wastes.
- **Municipal Solid Wastes (Management and Handling) Rules, 2000**, aim at enabling municipalities to dispose municipal solid waste in a scientific manner.

### **The Forest Conservation Act, 1980**

The Forest Conservation Act, 1980 was enacted to help conserve the country's forests. It strictly restricts and regulates the de-reservation of forests or use of forest land for non-forest purposes without the prior approval of Central Government. To this end the Act lays down the pre-requisites for the diversion of forest land for non-forest purposes.

The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, recognises the rights of forest-dwelling Scheduled Tribes and other traditional forest dwellers over the forest areas inhabited by them and provides a framework for according the same.

The Indian Forest Act, 1927 consolidates the law relating to forests, the transit of forest-produce and the duty leviable on timber and other forest-produce.

### **PROVISIONS OF THE INDIAN CONSTITUTION PERTAINING TO BUSINESS**

The Constitution of India has guaranteed some fundamental rights to the citizens and has also laid down certain directive principles of state policy for the achievement of a social order based on justice, liberty, equality and fraternity.

Legal aspects are an indispensable part of a successful business environment in any country. They reflect the policy framework and the mind set of the Government structure of that country. They ensure that every company is functioning as per the statutory framework of the country.

This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law.

The important legislations that concern the business enterprises include:

- The Companies Act, 1956
- The Factories Act, 1948
- Indian Partnership Act 1932
- Payment of Gratuity Act, 1972
- Employees' State Insurance Act, 1948
- Employees Provident Fund & Miscellaneous Provisions Act, 1952
- Negotiable Instrument Act , 1881
- Indian Contract Act, 1872
- The Sale of Goods Act, 1920

### **Indian Companies Act 1956**

It empowers the Central Government to regulate the formation, financing, functioning and winding up of companies. The Act contains the mechanism regarding organizational, financial, managerial and all the relevant aspects of a company.

It provides for the powers and responsibilities of the directors and managers, raising of capital, holding of company meetings, maintenance and audit of company accounts, powers of inspection, etc. The Companies Act plays the balancing role between these two competing factors, namely, management autonomy and investor protection. The Act applies to whole of India and to all types of companies.

### **The Factories Act, 1948**

The objectives are to regulate the working conditions in factories, to regulate health, safety welfare, and annual leave and enact special provision in respect of young persons, women and children who work in the factories.

### **Indian Partnership Act 1932**



The Indian Partnership Act 1932 defines a partnership as a relation between two or more persons who agree to share the profits of a business run by them all or by one or more persons acting for them all.

The Partners shall run the business of the firm to the highest level of common advantage by being true to each other. They have to be accountable to one another and provide complete information of all the aspects of the firm , to any other partner or their legal representatives.

Each partner shall indemnify the firm for any loss that occurred due to a fraud, in the conduct of the business.

### **Payment of Gratuity Act, 1972**

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Each partner shall indemnify the firm for any loss that occurred due to a fraud, in the conduct of the business.

### **Employees' State Insurance Act, 1948**

It is a self-financing social security and health insurance scheme for Indian workers.

The fund is managed by the Employees' State Insurance Corporation (ESIC) according to rules and regulations stipulated in the **ESI Act 1948**.

### **Employees Provident Fund & Miscellaneous Provisions Act, 1952**

This Act also aims to provide for the institution of provident funds , pension fund and deposit-linked insurance fund for employees in factories and other establishments.

### **Negotiable Instrument Act , 1881**

A Negotiable Instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer.

### **Indian Contract Act, 1872**

It determines the circumstances in which promises made by the parties to a contract shall be legally binding. Under Section 2(h), the Indian Contract Act defines a contract as an agreement which is enforceable by law.

## **The Sale of Goods Act, 1920**

It provisions for the setting up of contracts where the seller transfers or agrees to transfer the title (ownership) in the goods to the buyer for consideration. It is applicable all over India, except Jammu and Kashmir.

## **POLITICAL SETUP – CHARACTERISTICS AND THEIR IMPLICATIONS FOR BUSINESS**

### **Directive Principles of State Policy**

- The Directive Principles of State Policy aims at realizing the high ideals of justice, liberty, equality and fraternity as outlined in the preamble to the constitution.
- Directive Principles of State Policy‘ means the principles which the states should keep in mind while framing the laws and formulating policy
- The economic importance of Directive Principles of State Policy is
  - ▶ To provide adequate means of livelihood for all the citizens.
  - ▶ To secure equal pay for work to both men and women.
  - ▶ To protect the workers, especially children.
  - ▶ To regulate the economic system of the country that it does not lead to concentration of wealth and means of production
  - ▶ To make provision for securing right to work, to education and to public assistance in cases of unemployment, old age, sickness and similar other cases
  - ▶ To ensure a decent standard of living and facilities of leisure for all workers.

## **M RTP**

Monopolistic and Restrictive Trade Practice under **M RTP** act,1969. The MRTP Act was enabled to

- ✓ To ensure that the operation of the economic system does not result in the concentration of economic power in hands of few
- ✓ To provide for the control of monopolies
- ✓ To prohibit monopolistic and restrictive trade practices.

## **FEATURES OF MRTP**

- **Establishment of Competition Commission Under this law**

Govt. of India appoints the chairman and other member of competition commission. Competition act 2002 gives the rules and regulation regarding establishment and functions of this commission.

- **Qualification of chairperson of Competition commission**

He or she should be Judge of high court + 15 years or more experience in the field of international trade , commerce , economics , law , finance , business and industry .

## **FERA**

The **Foreign Exchange Regulation Act (FERA)** was legislation passed in India in 1973 that imposed strict regulations on certain kinds of payments, the dealings in foreign exchange (forex) and securities and the transactions which had an indirect impact on the foreign exchange and the import and export of currency.

The bill was formulated with the aim of regulating payments and foreign exchange

- Regulated in India by the Foreign Exchange Regulation Act (FERA),1973.
- Consisted of 81 sections.
- FERA Emphasized strict exchange control.
- Control everything that was specified, relating to foreign exchange.
- Law violators were treated as criminal offenders.
- Aimed at minimizing dealings in foreign exchange and foreign securities.

FERA was introduced at a time when foreign exchange (Forex) reserves of the country were low, Forex being a scarce commodity. FERA therefore proceeded on the presumption that all foreign exchange earned by Indian residents rightfully belonged to the Government of India and had to be collected and surrendered to the Reserve bank of India (RBI). FERA primarily prohibited all transactions, except one's permitted by RBI.

### **Objectives of FERA**

- To regulate certain payments.
- To regulate dealings in foreign exchange and securities.
- To regulate transactions, indirectly affecting foreign exchange.
- To regulate the import and export of currency.

- To conserve precious foreign exchange.
- The proper utilization of foreign exchange so as to promote the economic development of the country.

## **SOCIO-CULTURAL ENVIRONMENT AND THEIR IMPACT ON BUSINESS OPERATIONS**

Businesses do not exist in a vacuum, and even the most successful business must be aware of changes in the cultures and societies in which it does business. As society and culture change, businesses must adapt to stay ahead of their competitors and stay relevant in the minds of their consumers.

- ▶ Changing Preferences
- ▶ Demographics
- ▶ Advertising Techniques
- ▶ Internal Environment

### **Changing Preferences**

A major socio-cultural factor influencing businesses and business decisions is changing consumer preferences. What was popular and fashionable 20 years ago may not be popular today or 10 years down the road. Different styles and priorities can undermine long successful products and services. For example, a clothing company must constantly be aware of changing preferences when creating new products or it will quickly become outdated.

### **Demographics**

Changes in demographics are also a significant factor in the business world. As populations age, for example, markets for popular music and fashions may shrink while markets for luxury goods and health products may increase. Additionally, changes in the proportion of genders and different racial, religious and ethnic groups within a society may also have a significant impact on the way a company does business.

### **Advertising Techniques**

Advertising is perhaps the area of business most closely in touch with socio-cultural changes. Advertising often seeks to be hip and trendsetting, and to do this, advertising agencies and departments cannot lose track of the pulse of the societies in which they engage in business. Changes in morals, values and fashions must all be considered when creating outward facing advertising.

## **Internal Environment**

In addition to a company's interactions with the market and its customers, socio-cultural factors also impact a company's internal decision-making process. For example, changing gender roles and increasing emphasis on family life have led to increased respect for maternity and even paternity leave with organizations. Additionally, attitudes towards racial discrimination and sexual harassment have changed drastically over the years as a result of socio-cultural change.

## **Features of Indian Culture**

- ▶ Longevity and continuity
- ▶ Unity in diversity
- ▶ Tolerance
- ▶ Amalgamation of Spirituality and Materialism

## **VALUE OF INDIAN CULTURE**

### **Material Values**

The material value on which Indian culture puts emphasis is the perfect devotion/commitment of humans. Though enjoyment of material values is a part of Indian cultural values, it is only a part and cannot represent the ultimate goal the Indian cultural values pursue, that is, to realize the perfect devotion of humans. Most Indians brought up by the traditional Indian culture care less about the possession and enjoyment of material values: Thus there exists a strong national mentality of helping those in distress and aiding those in peril. In India as well as in other countries, it's not surprising to find that a rich person, even a very wealthy one, hands over his fortune for the good of social welfare.

### **Social and Political Values**

The social and political values of Indian culture are that humans should intend to create a harmonious environment, using the eternal law of the cosmos to normalize their own conducts in order to reach the ultimate stage of oneness with Brahman-atman. On the one hand, India attaches some importance to pragmatic interests and desires. On the other hand, more importantly, it spares no efforts to promote that everyone should persevere in his life and undertake the obligations of his family and his nation for the prosperity of the society and the wellbeing of his posterity rather than personal pursuits and gains. People must follow law and submit to it, complying with the social rules and morals prescribed by the eternal law, which is more than mere civil law and covers a whole range of meanings such as the task and justice of man, human relations and the social

order. So the Indian traditional cultural values strongly emphasize that only by dedicating oneself selflessly to the society can his behaviors truly accord with the social and political values and can a harmonious environment be created.

### **Spiritual Values**

The ultimate goal that the spiritual values of Indian culture pursue is to realize the oneness of Brahman-atman, which is the only way for final salvation. India is a religious country. As early as the Vedic era, Indians had a strong belief that some kind of individual personality existed after death, which was considered to be the primitive soul of a human. This belief developed into the thought of heaven at the end of this era. It was said in Atharva Veda that the soul of the dead could reside in heaven, earth and midair, but heaven is the most ideal place. While it was believed in Rig Veda that those people eligible to enter the heaven were sadhus who conducted ascetic practices, soldiers who gave up their lives on the battlefield and devotees who didn't hesitate to sacrifice their properties to Brahman could also enter heaven.

Then the conception of karma" began to emerge in Atharva Veda, which claimed that man must hold responsibility towards both the good karma and the evil karma on his own, and evil deeds must be punished accordingly. Based on this concept, the idea of the round of death and rebirth came into being. Evildoers must be punished, either being sent to the hell or being transmigrated into such humble things as pig, dog and muck, while those who did good would be rewarded by paradise. It was in the Upanishad era that such issues as the time limit of punishment and reward, soul and salvation were developed and clarified further.

The appearance of the Upanishads had a positive significance to a certain extent because the text was founded on the three major guiding principles of Brahmanism. It was the result of the efforts of some Brahmanical scholars who aspired to seek advanced thoughts to interpret the ultimate meanings of the forest treatises ' , part of the Vedas. These treatises included philosophic thoughts, so they were also called Vedanta philosophy. After it was finalized, the Vedanta philosophy claimed that the dominant in heaven, earth and midair was Brahman.

Though invisible and unrevealed as it was, it would appear in every place at any time. The material world and everything in it were just its illusion. Individual soul was essentially one with Brahman. This was the thinking of "the identity of Brahman-atman". Therefore, Hinduism sees the self-realization of the identity of Brahman-atman as the loftiest goal of reaching salvation. But because of "karma" man can't experience and recognize the atman. "Affected by Karma, the atman is

unable to return to Brahman to identify with it after death. So, man has to suffer from the round of death and rebirth or be reincarnated into a bird, a beast, a worm and a fish." For that matter, Indians consider life to be painful and that they must strive hard to find the way to reach salvation and the identity of Brahma-atman so that the suffering from the round of death and rebirth can be exempted, 'escaped from'. In order to achieve this goal, new paths had been put forward in the Bhagavad Gita, the classic work of Hinduism. They were the path of behavior, the path of devotion and the path of knowledge.

**Path of Behavior.** The believers must abide by the moral norms strictly, devoting themselves to the gods. Actions derive from freedom, so Hinduism encourages people to participate in all kinds of working practices, to love their jobs and to dedicate themselves to their jobs, which quite differs from the Buddhist way of salvation by quitting jobs to eliminate the cause of "karma".

**Path of Wisdom.** The path of wisdom is very popular among Indians today. To most intellectuals, they feel subconsciously the urgency to master knowledge and open the door of wisdom not only for the sake of finding a favorable living and working condition, but also for approaching God and identifying with him.

**Path of Devotion.** If a Hindu loves a god and submits to him piously in the extreme, this is also a way of gaining the god 's favor and reaching salvation. It is an effective way to identify with a god to cherish the god in heart, to do everything for god and to read the name of god silently every minute.

## **ECONOMIC ENVIRONMENT**

- ▶ The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company.
- ▶ For example, for a farmer, the weather and price of fertilizers are important factors.
- ▶ Macroeconomic influences are broad economic factors that either directly or indirectly affect the entire economy and all of its participants, including your business. These factors include such things as:
  - ✓ Interest rates
  - ✓ Taxes
  - ✓ Inflation
  - ✓ Currency exchange rates

- ✓ Consumer discretionary income
  - ✓ Savings rates
  - ✓ Consumer confidence levels
  - ✓ Unemployment rate
  - ✓ Recession
  - ✓ Depression
- ▶ Microeconomic factors influence how your business will make decisions. Unlike macroeconomic factors, these factors are far less broad in scope and do not necessarily affect the entire economy as a whole. Microeconomic factors influencing a business include:
- ✓ Market size
  - ✓ Demand
  - ✓ Supply
  - ✓ Competitors
  - ✓ Suppliers
  - ✓ Distribution chain, such as retail stores

## **MAIN FEATURES OF ECONOMIC PLANNING WITH RESPECT TO BUSINESS**

**1. Existence of a Central Planning Authority.** All countries launching on economic planning have at the top of economic affairs a Planning Commission or a Central Planning Authority, e.g., Gosplan in the U.S.S.R. and a Planning Commission in India. Planning has no meaning unless it is centrally planned. Planning by individual industries or organization will simply constitute plans and no planning.

**2. Laying Down Objectives.** Planning to be fruitful must keep steadily in view certain broad objectives which have to be realized. In the absence of such objectives planning will be merely a leap in the dark. Planning is not a policy of drift and the economic endeavour under planning has not to be haphazard. Certain very desirable objectives are laid down beforehand. The usual objectives are the maximization of national income, rapid industrialization providing full employment, achieving a socialistic pattern, achieving self- sufficiency, etc. Of course, the objectives will be laid down in the context of the economic situation.

**3. Fixed targets-** Allied with the laying down of the objectives is the fixing of targets. The objectives indicate the directions in which the economy is to move and targets are fixed for the



realization of those objectives. Targets are fixed for each industry and for each sector of major industries, transport, and communication, for imports and exports, and also in the field of education and public health. Fixing of targets enables the Planning Commission to determine the success or failure of each component part of the economy.

4. **Controls-** A planned economy has of necessity to be subjected to a variety of controls. The working of a free market economy has to be modified and controlled in the interest of overall planned development. Thus, in a planned economy we have price controls, control on the distribution of essential goods and scarce raw materials, through fair price shops, co-operative stores, import control, export control, exchange control, control of capital issues, licensing of factories, etc. Laissez- faire is dead and gone in all planned economies and extensive State control takes its place.

5. **Co-ordination.** Economic planning has to be comprehensive and not isolated and piecemeal. All economic efforts aiming at accelerated economic development must be properly coordinated. Without co-ordination a country will land itself into chaos and economic mess.

6. **Growing Public Sector.** Another important feature of a planned economy is the vital role played by the public sector and its growing importance. Private sector cannot be expected to sink capital in enterprises in which the return is long-delayed and is uncertain. The State as the custodian of national interest must step in where private enterprise is shy and is found wanting. The public sector really provides the essential framework for spreading out the planned economic activity. Better regional balance, more even distribution of economic power, greater economic stability, greater employment, fuller utilization of resources, greater security for the workers, elimination of recurring business cycles are some other features of a planned economy.

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**SCHOOL OF MANAGEMENT STUDIES**

**UNIT – IV – Business Ethics and CSR – SBAA1503**

## **IV. CORPORATE SOCIAL RESPONSIBILITY**

**Meaning, Evolution of corporate social responsibility, Limits of corporate social responsibility, Voluntary responsibility Vs. Legal requirements, Profit maximization vs. social responsibility**

### **MEANING OF SOCIAL RESPONSIBILITY**

According to concept of Social Responsibility of business the objective of managers for taking decision related to business is not only to maximize profit or shareholder value but also to serve and protect the interest of other members of its society like consumer, worker and community as a whole.

### **CORPORATE SOCIAL RESPONSIBILITY**

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental. Corporate social responsibility is a gesture of showing the company's concern & commitment towards society's sustainability & development. CSR is the ethical behaviour of a company towards society.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them

### **Understanding Corporate Social Responsibility (CSR)**

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations, boost morale and help both employees and employers feel more connected with the world around them.

### **SOCIAL RESPONSIBILITY FOR DIFFERENT INTEREST GROUP**

- ▶ Responsibility towards society
- ▶ Responsibility towards government
- ▶ Responsibility towards owners

- ▶ Responsibility towards shareholders
- ▶ Responsibility towards employee
- ▶ Responsibility towards suppliers
- ▶ Responsibility towards consumers

### **Responsibility towards society**

Business need to work in society, some importance of social responsibility is also define from society point of view. The business provide good product, try to maintain clean environment, provide opportunity to participate to business as well as work for the overall development of society, these are the some example of it.

### **Responsibility towards government**

When business pay regular taxes, follow the norms of government then it is consider as social responsibility of business which is duly fulfill by it.

### **Responsibility towards Owners**

Owners are the persons who own the business. They contribute capital and bear the business risks.

The primary responsibilities of business towards its owners are to

- Run the business efficiently.
- Proper utilization of capital and other resources.
- Growth and appreciation of capital
- Regular and fair return on capital invested.

### **Responsibility towards shareholders**

Investors are those who provide finance by way of investment in debentures, bonds, deposits etc. Banks, financial institutions, and investing public are all included in this category. The responsibilities of business towards its investors are:

- Ensuring safety of their investment,
- Regular payment of interest,
- Timely repayment of principal amount.

### **Responsibility towards Employees**

Business needs employees or workers to work for it. These employees put their best effort for the benefit of the business. So, it is the prime responsibility of every business to take care of the interest of their employees. If the employees are satisfied and efficient, then the only business can be successful. The responsibilities of business towards its employees include:

- Timely and regular payment of wages and salaries.
- Proper working conditions and welfare amenities.
- Opportunity for better career prospects.
- Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc.
- Better living conditions like housing, transport, canteen, crèches etc.
- Timely training and development.

### **Responsibility towards Suppliers**

Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:

- Giving regular orders for purchase of goods.
- Dealing on fair terms and conditions.
- Availing reasonable credit period.
- Timely payment of dues.

### **Responsibility towards Customers**

No business can survive without the support of customers. As a part of the responsibility of business towards them the business should provide the following facilities:

- Products and services must be able to take care of the needs of the customers.
- Products and services must be qualitative
- There must be regularity in supply of goods and services

After learning about Social Responsibility of the business in this chapter, one can understand the significance of Social Responsibility. The next chapter is about Business Environment and Protection which deals with the organization taking steps to protect both internal and external environment for their sustained growth and development.

### **NATURE OF SOCIAL RESPONSIBILITY**

- ▶ CSR is normative in nature.
- ▶ CSR is a relative concept.
- ▶ CSR may be started as a proactive or reactive.
- ▶ All firms do not follow the same patterns of CSR.

- Legal & socially responsible.
- Legal but socially irresponsible.
- Illegal but socially responsible.
- Illegal & socially irresponsible.

### **NEED FOR CSR**

- ▶ Issues such as environmental damage, improper treatment of workers, and faulty production leading to customer inconvenience or danger are being highlighted.
- ▶ Investors and investment fund managers have begun to take account of a firm's CSR policy in making investment decisions.
- ▶ Some consumers have become increasingly sensitive to the CSR program of the firms from which they buy their goods and services.

### **Need for CSR for consumers and society**

- ▶ It is required to encourage businesses
- ▶ Consumer preference
- ▶ Consumer opinions
- ▶ Issues mainly emphasized on by consumers:
  - Product quality
  - Money value
  - Technological advancements
- ▶ Leads to increase in the awareness of the society
- ▶ Helps in dealing with societal matters such as:
  - Nutrition & health issues
  - Human rights & gender
  - Labour practices
  - Involvement in community issues

### **BENEFITS OF CSR**

- **Improved public image:** This is crucial, as consumers assess your public image when deciding whether to buy from you. Something simple, like staff members volunteering an hour a week at a charity, shows that you're a brand committed to helping others. As a result, you'll appear much more favorable to consumers.

- **Increased brand awareness and recognition:** If you're committed to ethical practices, this news will spread. More people will therefore hear about your brand, which creates an increased brand awareness.
- **Cost savings:** Many simple changes in favour of sustainability, such as using less packaging, will help to decrease your production costs.
- **An advantage over competitors:** By embracing CSR, you stand out from competitors in your industry. You establish yourself as a company committed to going one step further by considering social and environmental factors.
- **Increased customer engagement:** If you're using sustainable systems, you should shout it from the rooftops. Post it on your social media channels and create a story out of your efforts. Furthermore, you should show your efforts to local media outlets in the hope they'll give it some coverage. Customers will follow this and engage with your brand and operations.
- **Greater employee engagement:** Similar to customer engagement, you also need to ensure that your employees know your CSR strategies. It's proven that employees enjoy working more for a company that has a good public image than one that doesn't. Furthermore, by showing that you're committed to things like human rights, you're much more likely to attract and retain the top candidates.
- **More benefits for employees:** There are also a range of benefits for your employees when you embrace CSR. Your workplace will be a more positive and productive place to work, and by promoting things like volunteering, you encourage personal and professional growth.

**A Good CSR practices can only bring in greater benefits by fostering the below aspects,**

1. Attracting and retaining employees – Increasing the employee morale and sense of belonging to the company
2. Enriching the corporate reputation – positive image and branding benefits are created to place the company as a responsible corporate citizen in the world market.
3. Cost savings
4. Revenue increase from higher sales and market share
5. Brand Value
6. Can avoid negative press and customer boycotts (risk reduction/management)

## **IMPORTANCE OF CSR**

- CSR helps in strengthening the relationship between companies and stakeholders.
- It enables continuous improvement and encourages innovations.
- Attracts the best industry talent as a socially responsible company. Provides additional motivation to employees.
- Mitigates risk as a result of its effective corporate governance framework.
- Enhances ability to manage stakeholder expectations.

## **EVOLUTION OF CSR IN INDIA**

### **PHASE 1 (1850 TO 1914)**

The first phase of CSR is known for its charity and philanthropic nature. CSR was influenced by family values, traditions, culture and religion, as also industrialization. The wealth of businessmen was spent on the welfare of society, by setting up temples and religious institutions. In times of drought and famine these businessmen opened up their granaries for the poor and hungry. With the start of the colonial era, this approach to CSR underwent a significant change. In pre-Independence times, the pioneers of industrialization, names like Tata, Birla, Godrej, Bajaj, promoted the concept of CSR by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. During this period social benefits were driven by political motives.

### **PHASE 2 (1910 TO 1960)**

The second phase was during the Independence movement. Mahatma Gandhi urged rich industrialists to share their wealth and benefit the poor and marginalized in society. His concept of trusteeship helped socio-economic growth. According to Gandhi, companies and industries were the 'temples of modern India'. He influenced industrialists to set up trusts for colleges, and research and training institutions. These trusts were also involved in social reform, like rural development, education and empowerment of women.

### **PHASE 3 (1950 TO 1990)**

This phase was characterized by the emergence of PSUs (Public Sector Undertakings) to ensure better distribution of wealth in society. The policy on industrial licensing and taxes, and restrictions on the private sector resulted in corporate malpractices which finally triggered suitable legislation on corporate governance, labour and environmental issues. Since the success rate of PSUs was not



significant there was a natural shift in expectations from public to private sector, with the latter getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen conducted a nationwide workshop on CSR where major emphasis was given to social accountability and transparency.

#### **PHASE 4 (1980 ONWARDS)**

In this last phase CSR became characterized as a sustainable business strategy. The wave of liberalisation, privatisation and globalisation (LPG), together with a comparatively relaxed licensing system, led to a boom in the country's economic growth. This further led to an increased momentum in industrial growth, making it possible for companies to contribute more towards social responsibility. What started as charity is now understood and accepted as responsibility

#### **ADVANTAGES OF CSR:**

- **It improves value and profitability**

A CSR plan focuses on the energy-efficiency tactics, for instance waste recycling that can diminish the operational costs, while offering advantage to the environment. Continuing with that, it will enhance an entity's transparency as well as responsibility with the media coverage, capital analysts, investors or owners of the company, and domestic societies. As an outcome, it improves the firm's reputational image among the owners that they integrating the similar plan and strategies into their shares selection tactics. Hence, it would turn into a virtuous circle where the corporation's shares' value would improve, with accessibility to capital investment being relieved.

- **It enhances organisation's reputation**

Mixed with genuine action, a policy regarding CSR can serve to create or enhance the company's reputational image. If it occurs that a brand is experiencing from adverse reputation that has resulted in losses, particularly because of environmental concerns, the CSR plan would be considered as effective solution to improve the damaged image and ultimately increase the profitability. In various situations, applying the CSR policy operates as part of the business model, where buyers are commonly seen showing more loyalty to a specific brand that has the ability to show strong commitment to environmental concerns.

- **It assist to bring motivation among the employees**

Almost of the global corporations know that employees or the staff of a company are considered as the most esteemed resources, which can be regarded as a fundamental structure of a company in relation to the CSR compliance. In other words, it means that treating the workforce with utter

dignity and respect, providing them desirable office infrastructure, friendly working culture, developing fair and unbiased hiring practices, as well as developing a workplace that does not promote work discrimination (regarding race or gender) is a must. Hence, focusing these points enhances the teamwork and confidence among the employees within a good office culture.

#### **DISADVANTAGES OF CSR:**

- **It needs higher costs and expenses**

One of the major drawbacks of implementing CSR plans and policy is to bear high costs in relation to install CSR strategies and implementing it, particularly for small entities. Whereas, large companies have the ability to bear such high cost regarding the allocation of a set budget to CSR reporting. Also, small entities that comprise of only 10 to 200 staff commonly experience issues with bringing capital investment. Although they can consider using media coverage to convey their policy to the domestic societies and their potential buyers, it would be time consuming to handle the alterations, which would involve hiring of additional staff, meaning further salaries expenses. Furthermore, there is a common thinking that the high costs of CSR would result in the downturn of small entities as majority of them cannot consider the required budget to be socially accountable. As per the critics, these entities does not have ability to bear the high costs of social media solutions, equipment, and training sessions required to fulfil the social responsibility.

- **It can increase investor's resistance**

While several investors are attracted to grab shares in entities that are publicly responsible, majority of them would consider for investment with the hope of generating high profits. Besides, while few organizations have created reasonable profitability from CSR, others that consider such a plan always prove as probable to lose cash resource. Considering the spotty path record of CSR in determining growth in earnings, shareholders focus to restrict attempts by entity managers to progress their companies in that path.

- **It promotes Greenwashing**

As per the critics, CSR can be considered a practice that might result in ineffectiveness, debating that it can result to green-washing. They shows that an entity's management workforce has inefficient responsibility to its investors, which is directly contradicting by CSR plans. They further focus that the accountability of senior management to their investors is to increase profitability, and executives who emphasize on creating huge revenue for the society and their

employment. Hence, this is the main motive why some entities argue about such policy, but would do nothing or take action regarding it.

### **Criteria for determining the social responsibility of business**

- ▶ Realisation of social responsibilities
- ▶ Profit Motive
- ▶ Long-term interests of the business
- ▶ Greater social power, larger shall be the social responsibilities
- ▶ Larger the size, greater shall be the social responsibilities
- ▶ Social responsibility vary with the type of the company
- ▶ Attracting investment
- ▶ Internalize more of its external costs

### **TYPES OF SOCIAL RESPONSIBILITY**

#### **Economic Responsibility**

What is a business? The business itself is an economic activity. Its main function is to earn profits. To earn profits means to understand the needs and demands of consumers whether it is regarding the quality of the product or its price. While understanding the perspective of the consumer and meeting their needs and demand to earn a profit is the economic responsibility of a business. When a business earns a profit, it also means that the employees earn the profit in terms of incentives. The economic growth of a business is not restricted to it but affects the society as a whole.



**Fig 1 : Types of Social Responsibility**

#### **Legal Responsibility**

Legal responsibilities are not only liable to the individuals in the society but also to the businesses in the society. As business is an entity itself, it must also follow laws and rules. Every business has a responsibility to operate within the boundaries set by the various commissions and agencies at

every level of the government. These rules and regulations are set for maintaining balance and the greater good of the society. A law-abiding enterprise is a socially responsible enterprise as well. The business is free to do business however it wants but only within the boundaries of regulations of various laws such as labour law, environmental law and criminal law. For example, it's a business's duty to pay taxes to the government and keep its account books clean as it helps the government to track the economic state of the company.

### **Ethical Responsibility**

Ethical responsibilities include the behaviour of the firm that is expected by the society but not codified in law. The factors of ethical responsibility include that the business must be environmentally friendly. The business should always be aware of its activities and how do they affect the environment. It is the moral and ethical responsibility of every human and every business.

### **Philanthropic Responsibility**

Business is one the most important pillar of the society. And therefore it should support and improve the society whenever it can. If a business is making significant profits it is the business responsibility that it should be philanthropic towards the society by donating funds or its goods and services. It's the philanthropic responsibility of the business to help different groups of the society. It should also work towards providing free education by opening educational institutes and training institutes or helping the people affected by natural calamities such as floods and earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

### **VOLUNTARY RESPONSIBILITY VS LAW REQUIREMENT**

The voluntary approach to CSR implies that corporations may or may not apply CSR practices in their activities as result of a lack of enforceability of CSR standards, which in turn implies that corporations have. a high degree of flexibility in the way they wish to conduct their businesses. It's not just a regulation to promote or help companies who want to be socially responsible. It's a law that decrees that companies should dedicate a 2% of their net profits to CSR activities. In India, mandatory CSR is a solution to reach places that the State cannot reach on its own.

Five years after the Companies Act, 2013 made it mandatory for companies above a certain size and profitability to contribute a percentage of their profits to social development, talk of corporate social responsibility, or CSR, is everywhere.

The Companies Act, 2013, a successor to The Companies Act, 1956, made CSR a compulsory act. Under the notification dated 27.2.2014, under Section 135 of the new act, CSR is compulsory for all companies- government or private or otherwise, provided they meet any one or more of the following fiscal criterions:

- ▶ The net worth of the company should be Rupees 500 crores or more
- ▶ The annual turnover of the company should be Rupees 1000 crores or more
- ▶ Annual net profits of the company should be at least Rupees 5 crores.

If the company meets any one of the three fiscal conditions as stated above, they are required to create a committee to enforce its CSR mandate, with at least 3 directors, one of whom should be an independent director. The responsibilities of the committee will be

- ▶ Creation of an elaborate policy to implement its legally mandated CSR activities. CSR acts should conform to Schedule VII of the Companies Act, 2013.
- ▶ The committee will allocate and audit the money for different CSR purposes.
- ▶ It will be responsible for overseeing the execution of different CSR activities.
- ▶ The committee will issue an annual report on the various CSR activities undertaken.
- ▶ CSR policies should be placed on the company's official website, in the form and format approved by the committee.
- ▶ The board of directors is bound to accept and follow any CSR related suggestion put up by the aforementioned committee.
- ▶ The aforementioned committee must regularly assess the net profits earned by the company and ensure that at least 2 percent of the same is spent on CSR related activities.
- ▶ The committee must ensure that local issues and regions are looked into first as part of CSR activities.

## **FEATURES OF CSR LAWS**

The broad and important features of the CSR laws are as follows:

- Quantum of money utilized for CSR purposes are to be compulsorily included in the annual profit-loss report released by the company.
- The CSR rules came into force on 1st April 2014 and will include subsidiary companies, holdings and other foreign corporate organizations which are involved in business activities in India.
- CSR has been defined in a rather broad manner in Schedule VII of Companies Act, 2013. The definition is exhaustive as it includes those specific CSR activities listed in Schedule VII and other social programmes not listed in schedule VII, whose inclusion as a CSR activity is left to the company's discretion

### **PROFIT MAXIMIZATION VS SOCIAL RESPONSIBILITY**

Being a socially responsible business is a concept that includes a variety of options, including helping advance a cause or profession, donating time, reducing environmental impacts, pursuing more diversified hiring or making monetary donations. Some capitalists believe that their existence is enough of a social contribution because they create jobs and provide tax money for municipalities and state and local governments. The more profits they generate, the more they benefit society. Some entrepreneurs feel they can better help advance causes than a government bureaucracy can. Other business owners limit their social activities to reducing waste, pollution and other environmental problems their business might cause.

### **CSR IN 2020**

The verdict is out. Infosys has beaten Tata Chemicals for the Number 1 position in our 2020 India sustainability and CSR chart. Tata Chemicals held the top spot for three consecutive years, until now. Infosys was the second ranker in 2019, and has risen to numero uno for CSR in 2020. Infosys Foundation Chair Sudha Murthy's loving perseverance in supporting the most deserving has left a deep impact on other businesses to do social good. All the companies mentioned in this list are responsible businesses that place corporate social responsibility (CSR) high on the agenda.

Implementation in 2020 is a mixed bag, what with COVID-19 activities taking up the biggest chunk of funding. A number of cyclones and floods wreaked havoc in large parts of the subcontinent. As a result, funds were also directed to disaster relief operations in Assam, Kerala, Bihar, Odisha and West Bengal. Sustainability and CSR in 2020 is a work in progress, since we haven't reached the year-end yet. However, these rankings take into account the FY 2019-20 CSR

projects which have been running since last year. Factors we took into account were impact assessment, compliance, funding and implementation on ground.

Which Indian companies topped CSR in 2020?

Tata Chemicals has dropped to the third position after being No. 1 for the past three years. Infosys has climbed one spot. Mahindra & Mahindra has climbed two spots to claim the second rank in the top 10 Indian companies for CSR in 2020. ITC has also climbed up from No. 5 to the fourth position this year. The Vedanta Group has outdone itself in the corporate citizenship realm, making it to the top 5, from its previous 8th rank. A new entry on the chart is Grasim Industries. The part of the Aditya Birla Group, Grasim won numerous awards for its flagship programmes. Without further adieu, here's our top 10 for CSR in 2020.

### **1. Infosys Limited**

“CSR can't be merely a job, it's a passion,” says Sudha Murthy, Chairperson, Infosys Foundation, the CSR arm of IT services conglomerate Infosys. The company spent nearly Rs. 360 crore towards various CSR schemes this year. COVID-19 relief work dominated the activities, with education and health-related programmes following after. Among the main CSR initiatives in the financial year 2019-20 were a 100-bed quarantine setup in Bengaluru in partnership with Narayana Health City, and another one which had 182 beds for COVID-19 patients for Bowring and Lady Curzon Medical College & Research Institute. Infosys Foundation primarily works with non-governmental organizations as the nodal agency for implementing projects. Highlights of the Foundation's interventions in the past include the introduction of Aarohan Social Innovation Awards, restoration of water bodies in Karnataka, enabling the pursuit of access and excellence in sports through the GoSports Foundation, and disaster relief efforts in Tamil Nadu, Karnataka and Kerala.

### **2. Mahindra & Mahindra Ltd.**

Anand Mahindra, Chairman of the Mahindra Group, declared a series of interventions after the pandemic hit the nation, from manufacturing ventilators to using Mahindra Holidays resorts for COVID-19 patient care. Project teams have assisted the Government and the defence forces to build quarantine facilities. The company has set up a special fund through the Mahindra Foundation to assist small businesses and professionals who have been affected financially. The chairman donated 100% of his salary to the fund, and urged his colleagues to volunteer their contributions.

Mahindra & Mahindra spent INR 93.50 crores on CSR initiatives during the financial year 2018-19, according to the annual report published by the company. The company spent INR 8.36 crore on Project Nanhi Kali which provides educational support to underprivileged girls in India through an afterschool support programme. Through Mahindra Hariyali 0.95 million trees were planted which contributed to improving green cover and protecting bio-diversity in the country. Of these, 0.83 million trees were planted in the Araku valley, which besides greening the environment also provided livelihood support to tribal farmers growing coffee in this region.

### **3. Tata Chemicals Ltd.**

Although the prescribed CSR for 2019-2020 was 21.39 Crores, the company went on to spend 37.81 crores on community development projects. Improving the quality of life and fostering sustainable and integrated development in the communities where it operates is central to Tata Chemicals' corporate philosophy. Tata Chemicals spends INR 12 crores on CSR annually, and wildlife conservation accounts for 30% of the budget of the TCSR. The spend is distributed over the three places the company has operations — Mithapur in Gujarat, Haldia in West Bengal and Babrala, Uttar Pradesh.

Tata Chemicals established Tata Chemicals Society for Rural Development (TCSR) in 1980 as a society and trust. It lays emphasis on the spirit of participatory development by involving the beneficiaries at each stage of the development process which ensures viability and sustainability of the programmes.

### **4. ITC Ltd.**

The Indian multinational conglomerate company headquartered in Kolkata has spent more than the prescribed CSR budget in the last three financial years. CSR of ITC Limited set up a COVID Contingency Fund of INR 215 crores for those affected. Together with local authorities, they distributed cooked meals, food and hygiene products across 25 States and Union Territories.

Responding to the needs arising out of the unprecedented lockdown, ITC has spearheaded a CSR initiative to enable the creation of an eco-system that would lead to significant livelihood generation for farmers and daily wage earners under the ambit of the Government's MGNREG Scheme.

ITC is among the top Indian companies for CSR because it believes that in the strategic context of business, enterprises possess, beyond mere financial resources, the transformational capacity to create game-changing development models. In line with this belief, ITC crafts unique models to



generate livelihoods and environmental capital. Such corporate citizenship interventions are far more replicable, scalable and sustainable.

#### **5. Vedanta Ltd.**

Vedanta Limited on a consolidated basis spent INR 309 crores on social investments and CSR (Corporate Social Responsibility) activities. This is 26% more than the previous year's INR 244 crores. This money is spent across 1,169 villages, benefiting nearly 3.1 million people.

Vedanta has a large and complex CSR portfolio with multiple and diverse projects running across various locations. There are 10 broad thematic areas under which, it undertakes community development projects. The Nandghar Project is among the flagship initiatives, which aims to rebuild Anganwadis for ensuring the health and learning of children in rural areas, and also for becoming a platform of women's empowerment and skilling.

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**SCHOOL OF MANAGEMENT STUDIES**

**UNIT – V – Business Ethics and CSR – SBAA1503**

## **V. SOCIALLY RESPONSIVE MANAGEMENT**

**Strategies of response - formulating socially responsive strategies - Implementing social responsiveness, making a social strategy work - Conceptual framework of social responsibilities of business - SWOT analysis for evaluating organizational framework for discharging social responsibility - Financial incentives for social responsibility - Role of self-regulation in discharge of social responsibility**

### **SOCIAL RESPONSIVENESS**

Social Responsiveness: Firms try to engage in social actions in response to popular social needs (involved in community development). To ensure effective social responsiveness there is a need to combine

- Statutory regulation
- Self-regulation by companies on social and environmental matters

### **Social Responsive strategies**

Carroll suggests four possible strategies: reaction, defense, accommodation and proaction.

#### ➤ **Reaction**

The corporation denies any responsibility for social issues.

#### ➤ **Defense**

The corporation admits responsibility but fights it, doing the very least that seems to be required.

#### ➤ **Accommodation**

The corporation accepts responsibility and does what is demanded of it by relevant groups.

#### ➤ **Proaction**

The corporation seeks to go beyond industry norms.

### **Relationship between Social responsibility and Social Responsiveness**

- Both aim at the betterment and the improvement of the quality of society as well as the environment.
- Therefore, these two are closely inter-related; when someone is socially responsible, he/she will eventually engage in social responsiveness as well.

	<b>Social Responsibility</b>	<b>Social Responsiveness</b>
Major Consideration	Ethical	Pragmatic
Focus	Ends (Outcome)	Means (Process)
Emphasis	Obligation	Responses
Decision Framework	Long term	Medium / Short term

**Table 1 : Difference between Social Responsibility and Social Responsiveness**

### **Top activities of Socially Responsible Companies**

- Make products that are safe
- Do not pollute air or water
- Obey the law in all the aspects of business
- Promote honest or ethical employee behavior
- Commits to safe workplace ethics
- Utilize environment friendly packaging
- Protects employees against sexual harassment
- Recycles within the company
- Responds quickly to customer problems
- Maintains waste reduction program
- Gives money towards charitable or educational causes

### **CORPORATE SOCIAL PERFORMANCE(CSP)**

Corporate social performance (CSP) refers to the principles, practices, and outcomes of businesses' relationships with people, organizations, institutions, communities, societies, and the earth, in terms of the deliberate actions of businesses toward these stakeholders as well as the unintended externalities of business activity. CSP is an extension of the concept of CSR that focuses on actual results achieved rather than the general notion of businesses' accountability or responsibility to society.

### **CSR SELF-REGULATION**

Corporate Social Responsibility is a classic 'signal left, turn right' tactic. By creating a guise of self-regulation, they give the impression that no new government regulation is needed. This allows businesses to 'regulate' themselves in a way that suits them. It's also useful in advertising, brand management and keeping out new competition.

Leftists would argue that this addition CSR self-regulation is needed because current government regulation is not enough. Milton Friedman answered this point in 1970. Current government policy reflects the democratic elected policy. If that isn't enough for the left wing, it is because the electorate doesn't want leftist policy. Adding extra regulations outside of the government is the policy equivalent of extrajudicial or vigilante justice.

Right wingers may argue that since CSR prevents new government regulation, it achieves a good aim. However, by subverting proper government regulation, CSR self-regulation subverts capitalism. Capitalism relies on a level playing field with the government setting standards for fair business competition. By letting businesses, the players, set their own rules the playing field will be unfair. CSR also implies that there is something wrong with profit seeking businesses. Functioning as an apology and atonement. Capitalism needs no apology.

### **ACCOUNTING FOR CORPORATE SOCIAL RESPONSIBILITY (CSR) EXPENDITURE**

The Companies Act 2013 introduced provisions related to fulfillment of Corporate Social Responsibility by certain companies (net worth Rs. 500 crores or more; or Turnover Rs. 1000 crores or more; or Net Profit of Rs. 5 crores or more) by making certain eligible expenditures/ payments. Once companies cross the threshold limit for CSR, they are required to spend at least 2% of their average net profits of 3 preceding years in eligible CSR activities. Also, there are certain major changes in CSR provisions introduced by the government in the year 2019 & 2020 but they are not notified yet. The major issues involved in accounting for CSR which will be discussed in this article are as follows:

- General Recognition & Measurement criteria of CSR Spend
- Treatment of Unspent CSR Amount
- Treatment of Excess CSR Spent
- Measurement of CSR spend made in kind
- Treatment of Surplus arising out of CSR Activities
- Presentation & Disclosure Requirements

#### **General Recognition & Measurement criteria**

The CSR Activities are carried out by companies in any of the following three ways:

- By making contribution to funds specified in Schedule VII of the Companies Act 2013;
- Through a registered society/ trust/ section 8 company (erstwhile section 25);

- On their own account

If expenditure is of revenue nature then it is charged to Statement of Profit & Loss. On the other hand, if expenditure is of capital nature then verify whether the control of asset remains with the company or it has been transferred. If control of the asset has been transferred, then charge expense to Statement of Profit & Loss. However, if the company retains the control of the asset, examine whether any future economic benefits would accrue to the company. Since, as per Rule 6 of the Companies (CSR) Rules, 2014 any CSR Surplus cannot be included in business profits, therefore, amount needs to be taken to Statement of Profit & Loss in this case also.

CSR Expenses are measured at aggregate of amount actually spent/paid and amount for which contractual liability has been incurred (benefits received but payment not made as on date).

### **Treatment of Unspent CSR Amount**

The Board of Directors shall ensure that amount required to be spent on CSR is actually spent as intended. If the company fails to do so then the unspent amount needs to be disclosed in Board's Report specifying the reasons for such failure. [2<sup>nd</sup> Proviso to section 135 (5)]

Also, the Board Report shall include Annual Report on CSR.

Now, the question arises that whether any provision is required to be made for such unspent amount or not? As such no provision is required to be made for unspent amount of CSR and only a disclosure is required to be made. However, provision needs to be made when a liability has been incurred by entering into contract for CSR spend.

The amount of provision will be equal to the amount representing the extent to which CSR activity was completed during the year.

A complete overhaul is proposed in the treatment of unspent amount; however, such provisions are yet to be notified by the government. After the amendment, we need to classify that whether unspent amount relates to an Ongoing Project or is related to other than Ongoing Project. If it is related to other than ongoing project, then the amount needs to be transferred to a fund specified in Schedule VII within 6 months from the end of financial year (i.e., upto 30 September).

On the other hand, if the unspent amount relates to an ongoing project then transfer unspent amount to a Special Account opened in the name of company within 30 days from the closure of financial

year (i.e., upto 30 April). This account shall be called as 'Unspent CSR Account'. The amount remaining in this account should be utilized within 3 years from the date of transfer on the ongoing project to which it relates. If unable to utilize within 3 years then transfer to a fund specified in Schedule VII within 30 days after completion of 3 years.

For example, ABC Ltd. has unspent CSR amount on 31<sup>st</sup> March 2021 of Rs. 500 crores which relates to an ongoing project. Now, ABC Ltd. shall open Unspent CSR Account with the bank and transfer Rs. 500 crores in that account upto 30<sup>th</sup> April 2021. Let say it transferred amount on 29<sup>th</sup> April 2021 in the account and now it has to utilize this amount upto 28<sup>th</sup> April 2024 failing which the remaining amount will have to be transferred to fund specified in Schedule VII such as PM Cares Fund or PM National Relief Fund, etc.

### **Treatment of Excess CSR Amount**

If the company spends amount on CSR in excess of the 2% of average profits of past 3 years then it is free to do so as 2% is minimum amount and there is no maximum limit prescribed in law. However, no set-off will be allowed in subsequent years for excess amount spend in previous years and accordingly no asset should be recognised in books for such amount.

For instance, R Ltd. spends Rs. 800 crores on CSR in FY 20-21 which is equal to 2.8% of its average profits. However, in FY 21-22 it spends Rs. 560 crores which is 1.5% of its average profits. Now, R Ltd. cannot set-off excess 0.8% of FY 20-21 with deficit of 0.5% on FY 21-22.

Similar to overhaul of unspent amount, a major change is also proposed in treatment of excess CSR spend wherein companies will be allowed to set-off excess amount in future years and accordingly asset will be recognised in books of accounts equivalent to such excess. However, these provisions are yet to be notified.

### **Measurement of CSR spend made in kind**

This includes activities such as free distribution of goods produced by the entity. Any surplus arising out of CSR Projects shall not form part of business profits of a company. Also, the CSR Policy of the company shall state this. Since, such surplus cannot form part of business profits but it is an income of the company (not arising from transaction with owners) which has to be

recognised in Statement of Profit & Loss. So, corresponding to income a liability will also be recognised for CSR expense which will be expensed off in future period.

### **Presentation & Disclosure Requirements**

As per General Instructions for Preparation of Financial Statements in accordance with Schedule III of the Companies Act 2013, the amount of CSR expenditure should be disclosed by way of note to the Statement of Profit & Loss. For better financial reporting practices create a separate line item for CSR Expenditure in Statement of Profit & Loss. A company may be in losses but still qualify for CSR spend due to net worth or turnover limit. In such cases a disclosure would be made in Board's Report.

Following disclosure are required in notes to account of CSR expenditure:

1. Gross Amount required to be spent.
2. Amount approved by the Board.
3. Amount spent during the year on
  - o Construction/ acquisition of asset
  - o Other purposes
4. Details of Related Party Transactions

### **EVALUATING CSR**

Corporate Social Responsibility (CSR) has gone mainstream and is no longer just the province of a few idealistic companies pushing their pet causes.

With more organizations placing CSR at the center of their corporate communications and strategy, and with more research showing that CSR is tightly tied to corporate success, knowing how to measure corporate social responsibility (CSR) performance has become essential.

At the highest level, such measurement allows organizations to make better choices about which programs to support, enhance the efficiency of their CSR initiatives, and enlist stakeholders (and shareholders) in the work.

These days, companies are eager to cite progress when it comes to their ESGs (environmental, social, and governance goals). Even investors are getting on board, taking a closer look at



organizations' ESG performance before they make decisions. There are even mutual funds out there that steer investments toward companies with solid ESG ratings.

The tangible benefits of measuring corporate social performance (and measuring it well) are clear. From reputational advantages that boost long-term business performance to customer preferences for companies with socially responsible records, organizations are realizing the myriad benefits of strong social impact work—and the benefits that come from maximizing their impact through tracking.

Companies are also more likely to attract investors and retain top talent with strong corporate social performance. They're even less likely to face lawsuits and boycotts if they have a strong reputation for good CSR work.

The bottom line is that CSR is now firmly situated alongside organizational structures like digital communications and PR and should be evaluated as closely as those other tactics. Let's talk about getting that done.

### **Evaluating corporate social performance as part of your overall organization**

The key criteria when measuring CSR programs:

- Transparency on progress towards communicated goals
- Strategic alignment between a company's services and their CSR work
- Demonstrated understanding of the issues being addressed by organizations
- Community assessment such as formal or informal evaluation of an organization's CSR work by members of the community being served.

A good overarching framework for understanding corporate social performance addresses both organizational priorities alongside social impact goals (with key sub-metrics):

1. Revenue: Cost savings, new customer acquisition, customer retention
2. Reputation: Brand awareness, measurable improvements in consumer perception
3. Recruitment: Amount of top talent attracted to the organization
4. Retention: Increased employee retention, engagement, and satisfaction
5. Relationships: Improved business partnerships

6. Impact: Measurable positive outcomes based on community assessments and KPIs

Measuring along all of these dimensions is complex work. And you need a good CSR data dashboard.

**How "Socially Responsible" are Companies in Reality?**

While it may be true that companies are increasingly sensitive to reputational damage, this does not necessarily imply they will actually improve their business practices. In some cases companies have instead engaged in elaborate PR campaigns designed to manipulate the public's perceptions of those practices. As environmental concerns have taken centre-stage in public discourse in recent years, "greenwashing" has become a particular problem, as many corporations have sought to market themselves as ecologically responsible whilst continuing to behave in fundamentally damaging way

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