



Business ethics and corporate social responsibility (Part-2)

Corporate Social Responsibility

CSR means social responsibility of corporate sector, which also means response of the corporate sector towards society.

A company concern and commitment towards society sustainability and development.

CSR is the ethical behavior of company towards society.

An idea where by companies integrate economic, social and environmental concerns in their business operation.



Aims of CSR

- ✓ Environmental Aims
- ✓ Social and community activities
- ✓ Sustainable development
- ✓ Ethical issues
- ✓ Business relationship



Pyramid of corporate social responsibility



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Objectives of CSR

- ✓ To maximize the company's impact on the society and stakeholder.
- ✓ To give back the community in the best possible way in return to the resources.
- ✓ To create awareness about the company and build its public profile.
- ✓ To support various campaigns on social and development issues that need support to have a greater impact.

relevance of resolving this issue.

1.10. Corporate Social Responsibility and Business Ethics

❖ Corporate Social Responsibility (CSR)

Corporate Social Responsibility is considered as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. It refers to business practices involving initiatives that benefit society. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders value i.e. maximizing profit and stakeholders' value. In the past few decades, dynamic changes are observed in the nature of the triangular relationship between companies, government and the society. No longer can firms act as independent entities regardless of the interest of the general public.

India has become the forerunner to mandate spend on Corporate Social Responsibility (CSR) activities through a statutory provision in the Companies Act, 2013. The new CSR provisions put formal and greater responsibility on companies in India to set out clear framework and processes to ensure strict compliance. The new Companies Act, 2013 bring more companies into its fold including foreign companies and also ensure increase in the total CSR spend.

1.10.1. Corporate Social Responsibility—Implications of Companies Act, 2013

Under the Companies Act, 2013, any company having a net worth of rupees 500 crore or more or turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more should mandatorily spend 2% of the average net profits made in the preceding three years per fiscal on CSR activities. The rules came into effect from 1 April 2014.

The Ministry of Corporate Affairs has notified **Section 135** and **Schedule VII** of the **Companies Act, 2013** as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 which was effective from April 1, 2014. Section 135, Chapter IX of The Companies Act, 2013 says that—

With effect from April 1, 2014, every company, private limited or public limited, having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a **Corporate Social Responsibility Committee** of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommend the amount of expenditure to be incurred on the activities and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

talent, loyalty is required. Business is accountable to the various stakeholders who can be identified and have a claim, either legally mentioned or morally expected, on the business activities that affect them. Yet stakeholder engagement is often seen as secondary, even non-essential, to the CSR agenda.

1.10.3. CSR in the context of Business Ethics

The codes of values and principles that govern the action of a person, or a group of people regarding what is right or what is wrong are called ethics. Therefore, ethics set standards as to what is good or bad in organizational conduct and decision making. All over the world it has been realized that for any type of business ethics is important and to achieve the progress of any society. It deals with internal values that are a part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment. In the long-run business and ethics go together. In the business setting, being ethical means applying principles of honesty and fairness to relationships with co-workers and customers. Business or corporate ethics is a form of applied ethics or professional ethics that examines ethical principles, and moral or ethical problems that arise in a business environment.

● Stakeholder theory in CSR

The stakeholder theory in CSR draws its philosophy from ethics, affirms that enterprises are "morally" responsible to look after the concerns of a larger group of stakeholders. Though the concepts business ethics and CSR have distinct identities but sometimes they refer to the same argument or code.

● Culture of caring for people and environment

A company which has developed a culture of caring for people and environment is called an ethically responsible company. This culture flows downwards from top managers to leaders. It is an umbrella term that covers all ethics-related issues that come up in the context of doing business.

● Ethics in Managerial Decision-making

Business ethics ensures morally appropriate behavior in managerial decisions relating to the operations of the corporation, and business relationship with the society. It applies to all aspects of business conduct and is relevant to the conduct of individuals and the entire organization. Furthermore the behavior that a business adheres to in its day-to-day dealings with its stakeholders like employees, customers, suppliers, immediate community and society in general is called business ethics.

● Factors corroding the ethical sense of business leaders

A large number of Indian companies discharge their social responsibilities towards the society quite satisfactorily. Many companies have excelled in such activities but when considered in the context of the vast needs of the country the achievements fall short of requirements. There are large numbers of factors which are responsible for corroding the ethical sense of industrial leaders. They are:

- Corruption
- Bribery
- Black money

● Feedback on Corporate Social Responsibility

The feedback that an enterprise receives on its corporate social responsibility helps to determine the following :

1. The current capacity of the enterprise to respond to the demands of corporate social responsibility.
2. The type of response option to be chosen by the company like proactive or reactive.
3. The relative strength of forces for change and stability.

● Ethical Problems

In spite of practicing corporate social responsibility ethical problems in the organization arises due to following reasons :

1. **Personal gain** : When the personal values of employees are less than what is desirable by the organization then it creates ethical problems in the organization.
2. **Individual values vis-à-vis organizational goals** : When the goals and methods of a company are not acceptable to its employees then it creates ethical conflicts in business.
3. **Competitive pressures** : When companies compete for the similar product, they sometimes engage in activities which are considered as unethical. The main purpose of adopting such unethical activities is to wipe out the competitors from the market. Besides rivalry between employees for promotion can engage themselves in unethical behaviour.
4. **Cross-cultural contradictions** : At home the ethical standards may be very strict. As a result it will be difficult for a company to sell the unsafe

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products but they may sell these unsafe products in those countries where ethical standards permit to use such products. Companies which build their factories in those countries where pollution control norms are less stringent are said to be “**exporting pollution.**”

● Evaluating CSR on the criteria of Profitability

At present increasing numbers of companies are taking a different perspective. The management of such companies develops a new product by spending lots of money. They know that there are little chances of making the product profitable because they have an ethical obligation to make it potentially beneficial to the people for discharging their corporate social responsibility. In such a case business ethics conflicts with the profits but the business always choose profits over business ethics. They never realize that ethical behaviour for discharging corporate social responsibility creates goodwill and reputation that will expand the opportunities of earning profits.

● Do good CSR practices equate with ethics?

Compliance with all the norms and regulation of CSR practice does not necessarily mean that the business is following sound ethical practices. The correlation of CSR activities and business ethics need to be evaluated. The scam led collapse of the famous energy company Enron in 2001, a major proponent of CSR is the leading example of a company that complied with CSR and governance norms but were unethical. The Enron failure was a wakeup call to observers of the CSR process to look deeper into corporate claims of CSR and the compliance of the firm in this regards with the legal process. Enron failure developed the belief among communities that big corporations goals for success may be at cross purposes with that of the communities.

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- *THANK YOU*
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