BUSINESS ETHICS AND CORPORATE GOVERNANCE

M.Com., (Accountancy)

Semester-IV, Paper-VI

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M.Com (Accountancy): Business Ethics and Corporate Governance

First Edition: 2023

No. of Copies :

ISBN 978-93-95854-91-7

9 789395 854917

This book is exclusively prepared for the use of students of M.Com (Accountancy) Centre for Distance Education, Acharya Nagarjuna University and this book is meant for limited circulation only.

Published by:
Dr. NAGARAJU BATTU,
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Acharya Nagarjuna University

Printed at:

FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy ofthis distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities andin turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson- writers of the Centre who have helped in these endeavors.

Prof. Raja Sekhar Patteti
Vice-Chancellor
Acharya Nagarjuna University

M.Com (Accountancy)
Semester – IV, Paper – IV

406CO21: BUSINESS ETHICS & CORPORATE GOVERNANCE

SYLLABUS

UNIT –I: Introduction to Business Ethics: Definition – Principles of Personal Ethics – Principles of Professional Ethics – The Development of Business Ethics – Importance and Need for Business Ethics – Significance of Business Ethics – Values and Ethics in Business.

UNIT –II: Corporate Governance – Definitions – Historical Perspective of Corporate Governance – Significance of Corporate Governance in Developing Countries – Issues in Corporate Governance – Major thrust areas of Corporate Governance – Indian model of Corporate Governance.

UNIT–III: Ethical Decision making in Business – Ethical Decision making with Cross – holder conflicts and competition – Applying Moral philosophy to Ethical decision making – Kohlberg's Model of Cognitive Moral development – Influences on Ethical Decision making.

UNIT–IV: Globalization and Business Ethics – Growth of Global Corporations – Factors Facilitating Globalization – Role of Multinational Corporations – International Business Issues – International Codes of Business conduct – Challenges of Globalization in the context of Growing market economies – Key Global issues for Business – Corporate Governance is a pre-requisite for Globalization.

UNIT–V: Corporate social responsibility: Definitions of CSR – Models for implementation of CSR – CSR as a business strategy for sustainable development – Advantages of CSR – Scope of CSR – Understanding Social Responsibility of Business – Protecting and Promoting stake holder's interests.

FURTHER READINGS:

1. Business Ethis – A Case perspective – O.C. Ferrell, John Fraedrich and Linda Ferrell Cengage Leachery

2. Business Ethics – An Indian Perspective – A.C. Fernando. Pearson

CONTENTS

LESSON -1

INTRODUCTION TO BUSINESS ETHICS

Learning objectives

To Discuss the Business Ethics
To study the Principles of Professional Ethics
To learn the Principles of the Personal ethics
To identify the difference between he Professional and Personal Ethics

Structure

1.1 Introduction of Business Ethics

Ethics is as to principles or standards of human conduct that govern the behavior of individuals or organizations. Using these ethical standards, a person or a group of persons or an organization regulate their behavior to distinguish between what is right and what is wrong as perceived by others. It is not a natural science but a creation of the human mind. For this reason, it is not absolute and is open to the influence of time, place and situation.

Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others.

Code of conduct' is as to principles and expectations that are considered binding on any person who is a member of a particular group. The alternative names for code of conduct are'code of ethics' or 'code of practice'.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules–articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole.

The coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility.

1.2 Corporate entities are legally considered as persons.

A business is any organisation or entity whose primary objective is to provide goods or services for profit. Otherwise, Ethics is the study of morality. In short, the moral status of the sorts of decisions that are made in the context of buying and selling goods and services can be assessed as narrated below.

For any decision that affects some individual in a positive or a negative way is a moral decision and decisions made by businesses are among those that affect individuals the most!

That being said, anyone who owns, or runs, or works for a business—in short, almost all of us needs to be in the position to know which decisions are the morally acceptable, and which are the morally not acceptable.

So, business ethics is the applied ethics discipline that addresses the moral features of commercial activity. In practice, however, a dizzying array of projects is pursued under its rubric. Programs of legal compliance, empirical studies into the moral beliefs and attitudes of business people, a panoply of best-practices claims (in the name of their moral merit or their contribution to business success), arguments for (or against) mandatory worker participation in management, and attempts in applying traditional ethical theories, theories of justice, or theories applicable to firms or to the functional areas of business are all advanced as contributions to business ethics and especially in its academic literature. These projects vary considerably and often seem to have little in common other than the conviction, held by those who pursue them, that whatever each is pursuing is business ethics.

Therefore,

- Business ethics is a branch of ethics which prescribes standards regarding how the business is to be carried out.
- Business ethics guidelines to stakeholders.
- Business ethics is the responsibility of the managers and employees.
- Business ethics is the application of ethical judgments to business activities.

1.3 Meaning of Ethics

It is refers not to the disinterested or unconcerned observer, or a passive or unaffected and reluctant individual, or a person who is weak – willed, biased, self centered or irrational, or even the person who is not placed or positioned in the critical place of action. It refers necessarily to the rational and responsible person who finds himself obliged and constrained to act by virtue of the position or the office he occupies and the function he is called upon discharge.

1.4 Meaning of Business Ethics

Business ethics means both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organisation. They can differ from one company to another because of differences in cultural perspectives, operational structures and strategic orientations. The guiding framework of business ethics exists at all levels of the organisation. It is all about having the wisdom to determine the difference between right actions and wrong decisions.

In simple terms, business ethics fundamentally denotes the organization’s codes of corporate governance. It stipulates the morality standards and behavioral patterns expected of individuals and the business as a whole. These moral benchmarks can be perceived in terms of the microenvironment and macro environment of the business.

Ethics is a set of standard, or a code value system worked out from human reason and experience, by which free human actions are determined as ultimately right or wrong, good or evil. If an action agrees with these standards, it is ethical; if it does not agree, it is unethical.

1.5 Definition of Business Ethics

According to Kirk O. Hanson, a renowned ethics expert who also doubles as the Executive Director of the Markkula Center for Applied Ethics, "business ethics is the study of the standards of business behavior which promote human welfare and the good."

"Business Ethics'' can be defined as the critical, structured examination of how people & institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self – interest or (for firm).

"Business ethics' is defined by the IBE as 'the application of ethical values to business Behavior

According to Kenneth Kernaghan is defined as "Ethics is concerned not only with distinguishing right from and good from but also with commitment to do what is right or what is good. The concept of ethics is inextricably linked to that of value, that is enduring belief that influence the choices we make from available means and ends."

According to R.E. Freeman, A.F. Stoner is defined as "Ethics broadly and simply is the study of how our decisions affect other people. It is also the study of people's rights and duties and of the rules that people apply in making decisions."

According to Wiley is defined as "Ethics reflects the character of the individual and more contemporarily, perhaps the character of the business firm, which is a collection of individuals". According to Baumhart "Ethical standards are principles of ideals of human conduct".

1.6 Meaning of Personal Ethics in the Organisation

Personal ethics is defined as any ethical system or doctrine that has been chosen as a moral guide in the particular life of an agent.

1.7 Definition of Personal Ethics in the Organisation

Personal ethics is the process of learning what is right and wrong, then doing what is right.

1.8 Principles of Personal Ethics in the Organisation

1. To maintain that personal ethics comprising of morals, principles, and values, it requires constant repetition that is taught and not magically acquired.
2. It is the parents responsibility to teach the importance of honesty, accountability, responsibility, and integrity.
3. So, lessons that are taught by parents are so vital to personal ethics and good behavior. Therefore we cannot place our own interests and value them ahead of our faith, family, friends, and others.
4. There is no place for arrogance and greed in our personal lives or in the business world. Grace and humility are required in all of our lives.
5. The best place we can point fingers is at our own tummies and not blame others. So let us strive to teach, enrich, and develop others about personal ethics and remember the lessons of our mentors.

1.9 Introduction to Professional Ethics in the Organisation

Business or professional ethics are standards or codes of conduct set by people in a specific profession. A code of ethics is a part of the expectations of those involved in many different types of professions. People in a profession don't want to object bad, dishonest or irresponsible behaviour if it does occur by someone in their field. By setting out expected behaviour in the form of professional ethics, professionals work together and try to uphold a good reputation. Professional ethics are commonly known as ethical business practices...

1.10 Meaning of Professional Ethics in the Organisation

Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession. An example of professional ethics is the American Bar Association's set of ethical rules that govern an attorney's moral obligations. Professional ethics encompass the personal, organisational and corporate standards of behaviour expected of Professionals. Professionals and those working in acknowledged professions, exercise specialist knowledge and skill. How the use of this knowledge should be governed when providing a service to the public can be considered a moral issue and is termed professional ethics.

Professionals are capable of making judgements, applying their skills and reaching informed decisions in situations that the general public cannot, because they have not received the relevant training. One of the earliest examples of professional ethics is the Hippocratic oath to which medical doctors still adhere to this day.

Many professions that are trusted by the public to apply expert knowledge (doctors, engineers, lawyers, charted accountants and the like) have a Code of Ethics which sets out their expectations of a member's behaviour and the boundaries within which members have to operate. A Code of Ethics helps to clarify the profession's values provides a reference point for decision making and can be used as a framework for discipline. Most Codes of Ethics are principles based, providing guidance as to the principles on which professional judgement and decisions should be based, rather than a rigid system of rules.

There tend to be some common themes, so for example AAT's Code of Ethics, like that of other professional accountants, sets out 5 fundamental principles which members must apply: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Professional Ethics is partly comprised of what a professional should or should not do in the work -place. It also encompasses a much greater part of the professional's life. If a professional is to have ethics then that person needs to adopt that conduct in all of his dealings.
Another aspect of this is the enhancement of the profession and the industry within which the professional works.

1.11 Principles of Professional Ethics

Respect and honesty are the two main components of professional ethics. All employees are expected to represent a business ethically as they are a part of it. This is why businesspeople traditionally speak of "we" or "us" rather than the more personal "I" for the most part. For instance, if an employee must mention company policy to a customer, he or she may say "I'm sorry, but this is our company policy in these situations." Policies are another type of preferred standards in how business is done, and everyone in a company is expected to represent them.

It should be noted that people within each profession are expected to be respectful and honest in their personal dealings as well. For instance, it would be unethical for law enforcement professionals also being criminals in their time off the job. Professionals are also expected to uphold ethics by not getting involved in any type of conflict of interest. A conflict of interest situation may occur when an individual tries to accomplish personal goals as a result of being in a certain profession. For example, a politician who uses government resources to get work done at his home could be seen as being involved in a conflict of interest.

Professional ethics training is often included in career education programs. For example, Doctors are trained on the many ethical issues regarding patient confidentiality. It is both unethical and unlawful to discuss a patient's health records with others who are not involved in the medical care of the individual.

Engineering, journalism, religious organizations and many other professions have professional ethics. These ethical codes or rules must never go against laws, but rather often coordinate with them as in the case of medical record confidentiality. In general, these ethics always include upholding honesty and respect in the profession over personal needs, conflicts or biases. A bias is a personal belief such as prejudice toward a certain group of people.

1.12 Future of Professional Ethics in the Organisation

Computer Societies around the world such as the IEEE and national bodies in Australia, Singapore, the UK and other countries have on their websites professional codes of ethics to consider and adopt in the way professionals conduct themselves in and out of the work place.
Personal ethics, morality, and integrity will strongly influence a person’s professional ethical conduct. Integrity means wholeness or completeness which needs continuity of life in all its actions. We must not delude ourselves or the people we lead by thinking that we can practice conduct.

1.13 Code of Professional Ethics in the Organisation

A Code is a statement of policies, principles or rules that guide behaviour. Certainly, codes of ethics do not apply only to business enterprises, but they should guide the behaviour of people in all organisations and in all walks of life. So it is named as “Professional Ethics”. In the present time, every profession has its own codes, to be practised by their professionals.

1.14 Ethics in Different Professions

All persons, whether they are in business, government, educational institutes, or any other professions are concerned with ethics. Encyclopedia of Social Sciences defines ethics as “the organization or criticism of conduct in terms of notions like, good, right or welfare…

Ethics is the secular and critical manner of taking account of the rationalizing process in human conduct. Its temper is non-mystical, and its orientation is social rather than theological.”

1.15 Difference between Personal and Professional Ethics

Personal ethics refers to the ethics that a person identifies with in respect to people and situations that they deal with in everyday life.

Professional ethics refers to the ethics that a person must adhere to in respect of their interactions and business dealings in their professional life.

In some situations, personal and professional ethics may clash and cause a moral conflict. For example:

A police officer may personally believe that a law that he is required to enforce is wrong. However, he is required to obey all lawful and reasonable instructions to enforce that law unless there is good and sufficient cause to do otherwise.

A doctor may not personally believe that the course of medical treatment chosen by a patient is the right one. However, she must respect the rights, autonomy and freedom of choice of the patient.

1.16 Meaning of Discrimination

Discrimination is treatment or consideration of, or making a distinction in favour of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit. This includes treatment of an individual or group based on their actual or perceived membership in a certain group or social category, "in a way that is worse than the way people are usually treated". It involves the group's initial reaction or interaction going on to influence the individual's actual behaviour towards the group leader or the group, restricting members of one group from opportunities or privileges that are available to another group, which leads to the exclusion of the individual or entities based on logical or irrational decision making.

Not all discrimination is based on prejudice. However, some religious duties, for example, need to be performed exclusively by a person professing the religion that commands those duties. Also, in the U.S., government policy known as affirmative action was instituted to encourage employers and universities to seek out and accept groups such as African-Americans and women, who have been subject to the opposite kind of discrimination for a long time. Discriminatory traditions, policies, ideas, practices, and laws exist in many countries and institutions in every part of the world, even in ones where discrimination is generally looked down upon. In some places, controversial attempts such as quotas have been used to benefit those believed to be current or past victims of discrimination—but have sometimes been called reserve discrimination.

Discrimination is the act of treating someone unfavourably or favourably because of some characteristic such as race, age, culture, gender, religion, and so on. Any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation is unlawful.

1.17 Importance of Discrimination

Failure to treat people fairly or equitably may be classed as discrimination. Antidiscrimination is about ensuring that everyone gets a fair go in life. The Anti-Discrimination Act 1991 (Qld) promotes fair treatment and equality by making unfair discrimination unlawful. It also places responsibilities on everyone to ensure that unlawful discrimination and certain 'objectionable conduct' is minimised or prevented.

1.18 Meaning of Harassment

Harassment is a form of employment discrimination that violates Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, (ADEA), and the Americans with Disabilities Act of 1990, (ADA).

Harassment is unwelcome conduct that is based on race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability or genetic information. Harassment becomes unlawful where

1) enduring the offensive conduct becomes a condition of continued employment, or
2) the conduct is severe or pervasive enough to create a work environment that a reasonable person would consider intimidating, hostile, or abusive.

Anti-discrimination laws also prohibit harassment against individuals in retaliation for filing a discrimination charge, testifying, or participating in any way in an investigation, proceeding, or lawsuit under these laws; or opposing employment practices that they reasonably believe discriminate against individuals, in violation of these laws. Petty slights, annoyances, and isolated incidents (unless extremely serious) will not rise to the level of illegality. To be unlawful, the conduct must create a work environment that would be intimidating, hostile, or offensive to reasonable people.

Offensive conduct may alsoinclude, offensive jokes, slurs, epithets or name calling, physical assaults or threats, intimidation, ridicule or mockery, insults or put-downs, offensive objects or pictures, and interference with work performance. Harassment can occur in a variety of circumstances, including, but not limited to, the following:

• The harasser can be the victim's supervisor, a supervisor in another area, an agent of the employer, a co-worker, or a non-employee.

• The victim does not have to be the person harassed, but can be anyone affected by the offensive conduct.

• Unlawful harassment may occur without economic injury to, or discharge of, the victim.

Prevention is the best tool to eliminate harassment in the workplace. Employers are encouraged to take appropriate steps to prevent and correct unlawful harassment. They should clearly inform the employees that unwelcome harassing conduct will not be tolerated.

They can do this by establishing an effective complaint or grievance process, providing antiharassment training to their managers and employees, and taking immediate and appropriate action when an employee complains. Employers should strive to create an environment in which employees feel free to raise concerns and are confident that those concerns will be addressed.

Employees are encouraged to inform the harasser directly that the conduct is unwelcome and must stop. Employees should also report harassment to the management as early as possible to prevent its escalation.

1.19 Employer Liability for Harassment

The employer is automatically liable for harassment by a supervisor that results in a negative employment action such as termination, failure to promote or hire, and loss of wages. If the supervisor's harassment results in a hostile work environment, the employer can avoid liability only if it can prove that:

1) He reasonably tried to prevent and promptly correct the harassing behavior; and

2) The employee unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer.

The employer will be liable for harassment by non-supervisory employees or nonemployees over whom it has control (e.g., independent contractors or customers on the premises), if it knew, or should have known about the harassment and failed to take prompt and appropriate corrective action.

While investigating allegations of harassment, the entire record including the nature of the conduct, and the context in which the alleged incidents occurred must be examined. A 92 determination of whether harassment is severe or pervasive enough to be illegal is made on a case-by-case basis.

1.20 Benefits of Workplace Harassment Training

The training community has heard the maxim "the most successful organizations know the value of employee training". So, what are the benefits of worklpace harassment training for employees? A short list of training benefits are-

- Fewer errors
- Lower turnover rates
- Sends the message that employees are valued

Can harassment prevention training create substantial positive outcomes such as those listed above? Or, is workplace harassment training a "check-the-box" item that simply results in fewer harassment claims and functions as an insurance policy – a reasonable step taken to mitigate liabilities?

Error Reduction

Data from the Sexual Experiences Questionnaire (SEQ, Form W) indicated the extent to which human resource professionals received unwanted sexual behavior over a 5 year period. It is surprising since HR personnel being harassed seems a bit like a school-aged child bullying the parent rather than their classmate. One of the stats from the report showed that "89 percent of human resource professionals self-reported to have received gender harassment." Does this indicate lack of awareness skills on what is appropriate and what is not? Can the prohibited behaviours be viewed as errors? Many employees act without knowledge and their intent is not to offend. For example, hugging is a controversial topic. Can you think of a situation where hugging a colleague is OK and another scenario when it would be considered aggressive? Probably. How to appropriately act in today's complex workplaces requires training, just like customer service skills or effective delegation training.

Turnover

Creating and maintaining a respectful workplace helps reduce turnover. Experiences of harassment led to increased turnover based on a study conducted by the military with over 11,000 servicewoman serving as the data pool. The cost of turnover is well documented. Turnover varies depending on the industry and job status but for a hourly line employee, the cost of replacing, training etc. starts at a couple of thousand dollars.

Motivation

Feeling appreciated lately? If not, how much more motivated would you feel (and act) if you knew you were valued? On the other hand, take a walk on the dark side and imagine how your self-worth would suffer if you were the target of harassing behaviors – be it sexual, bullying, retaliation, etc

We all need to feel safe and protected in order to be productive workers. Harassed employees seek relief – using sick leave, for example, more frequently than the average employee.

Start with the End

Maximising the benefits of workplace harassment training starts with the end goal. Most employers want their employees to be knowledgeable and aware so that they can know definitive guidelines that are clearly spelled out in their policies against harassment. That's a good goal.

How to avoid prohibited behaviour is a skill that is best learned by regular reinforcement. Training that is "one and done" is not goal oriented except to perhaps minimise the cost associated with the training initiative. Workplace harassment training that is given to managers and not individual contributors leaves out the positive changes that can happen when everybody is on the same work. Continuous learning deployed regularly makes a statement – we, your employer, do not tolerate prohibited behavior in the workplace and expect our employees to treat each other with respect.

Continuing

Consider sending emails to all employees at least once per quarter with a short message that respectful behaviour is essential. Assign them an online mini-course (about 5 minutes in length) with a thought provoking scenario that keeps them actively thinking about doing the right thing. Ask employees what they think about getting consistent messaging that expresses the organisation's values about respect in the workplace. People get excited about this stuff. Checkout Menlo Innovations joyful culture. Richard Sheridan is CEO and wrote the book Joy,Inc. As stated on their website – "people want to see it. Up close and personal, they come from around the world to visit. Some stay for hours, others for days. They walk through, they ask questions, they take pictures, they listen to the stories and take away inspiration." That's life, in this case ... work life to the max

1.21 Meaning of Gender Equality

Gender equality, also known as sex equality, gender egalitarianism, sexual equality or equality of the genders, is the view that men and women should receive equal treatment, importance and should not be discriminated based on gender.This is the objective of the United Nations Universal Declaration of Human Rights, which seeks to create equality in law and in social situations, such as in democratic activities and securing equal pay for equal work.

1.22 Definition of Gender Equality

For an expression that is much talked about, you rarely come across a clear definition of what gender equality actually means. I'm pretty sure different people mean very different things when talking about gender equality, and many people probably aren't even aware of exactly what they mean.

Not defining words properly is a sure recipe for discussions and debates that lead nowhere, and heated arguments that are as passionate as they are meaningless. I believe that by defining what we mean by gender equality, we can avoid / sloppiness, and clarify our own beliefs in this area. Furthermore, you cannot hit a target unless you know what the target is, and for most people gender equality is a desired outcome.

1.23 Importance of Gender Equality

An article on June 19 in The Jakarta Post noted that women's groups had opposed moves from the government to release a bill aimed at guaranteeing equal rights between both genders. Their opposition was partly due to complaints that the bill would allow same-sex marriage, marriage between adults and minors, and other issues, due to a lack of details on how to specifically empower women and achieve gender equality.

As with any issue, a new regulation enacted by the government aimed at tackling this issue must be specific in its design. This ensures that the regulation is only concerned with the particular issue at hand, eliminating any source of confusion or loopholes for other issues. Therefore, the government must carefully reexamine any bill which is aimed at creating a more gender-equal society.

But why is gender equality an issue in the first place? What exactly does it mean to have Gender equality? For many Indonesians, men and women alike, notions of gender equality are against the traditional division of labour whereby husbands are the breadwinners and wives take care of things at home. Indeed, this is the principle charge laid out against the gender equality bill. This division of labour has become inbuilt as a result of cultural and religious beliefs and is Visibly practiced in the rest of Asia.

This division, however, reduces the propensity for women to be exposed to the same opportunities as men. With a future of domestic work already laid out, it discourages and may even form a direct barrier for women in pursuing skills necessary for any employment outside the home. Economic dependency is thus formed between the man and the woman, leaving the woman in a highly precarious situation should relations with the man be anything less than amicable or if an unfortunate tragedy occurs.

One can observe the resulting economic disparity as a result of this division of labor in Indonesia. Data from the 2011 Global Gender Gap Report indicated that only 53 percent of women were participating in the labor force compared to 87 percent of men. In addition, the estimated average earned income for men was US$5,915 but only $2,487 for women. To put this into perspective, Indonesia's annual gross domestic product (GDP) per capita (an estimate of the average income per person) is $4,003, showing that women earn far less than the national average.

Inequality also exists in wages for similar jobs. The report gave a number of 0.67 to highlight the gap in male and female wages (a number of 1 indicates perfect equality).

Furthermore, just 22 percent of legislators, senior officials, and managers are women, while only 18 percent of the seats in the House of Representatives are held by women. Finally, 95 percent of Indonesian men are literate compared with 89 percent of women. Economic and social inequality thus exists between men and women; inequality entrenched through the traditional division of labour. While this article is not alleging that all women would want to pursue paths other than domestic work should the division be eliminated it may indeed be the case that some women would be interested in pursuing other career or noncareer opportunities.

This is the definition of gender equality: Equal exposure to the same opportunities between men and women. Looked at in this way, gender equality does not suppose that managerial posts in the office will be split evenly between men and women. Rather, both males and females, throughout their life journeys, are given equal exposure to the same opportunities.

Equal exposure is, of course, an arbitrary judgment and how one quantifies equal exposure merits a whole book in itself. For the purposes of this article, equal exposure can be defined in three ways.

First, both men and women are taught the same curriculum at school. To Indonesia's credit, a near perfect equality in school enrollment between girls and boys exist. In order to make gender equality more effective, however, subjects traditionally only taught to females, such as sewing or home economics, should not be mandatory but should be made available as electives for both genders.

The curriculum should not mold students along specific paths but rather expose them to a myriad of different opportunities.

Second, equal pay for similar or same work must be rigorously enforced by the state through regulatory bodies. Any disparity in wages due to gender is unfair and suggests that a woman is unable to do the same work as effectively as a man. Hence, equal pay would promote greater respect among coworkers of both genders. It would also encourage greater female participation in the workplace as they would now receive the same benefits as men. This also broadens the pool of future stars, as the female factory worker today may become the plant manager of tomorrow. One can observe the tremendous macroeconomic gains to be made from gender equality.

Third, affirmative action policies in favor of women should be slowly reduced as the first two factors above become increasingly common. As women are given more equal exposure to the same opportunities, the state should eliminate any affirmative action policy since they are no longer necessary. This would eliminate any backlash from groups who claim that the rise of women in the labor force is due to mitigating circumstances.

It would also validate the credibility of women and show that the traditional division of labor should not be ingrained and that rather, women should be given the same opportunities as men to pursue their own futures.

The above points are not an argument against the traditional division of labor. On the contrary, the aim of this article is to show that the traditional division of labor has the effect of disadvantaging women as measured through economics. It should be the aim of the state to provide equal exposure to the same opportunities for all and, hence, rules and regulations should be in favor of creating a more gender-equal society.

1.24 Summary

The field of business ethics has traditionally been the domain of philosophers, academics and social critics. It includes the case studies, which require numerous cases, and much time and analyses to synthesize. Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace. It would also involve establishing and operating support networks such as employees wellbeing programmes which in turn help the employees to be healthy and happy. When a company chooses to do no more than what is required by local law, the chances of healthy employee turnover are much higher. Many of the professional decisions involve ethics. By developing a code of ethics, an organization makes it clear that employees and members cannot claim ignorance as a defence for unethical conduct. The code of ethics help employees strike a balance between the ends and the means used to obtain them.

Most professionals would prefer to police themselves, rather than have an externally imposed let of regulations. The workplace ethics involve a tension between what people feel is right for them versus what’s right for the workplace. Gender equality is also known as sex equality, gender equalitarianism, sexual quality or equality of the gender, is the view that men and should receive equal treatment

1.25 Key words

Work Place Ethics - Workplace ethics are codes of conduct that influence the development of an ethical culture within the workplace.

Personal Ethics -Personal ethics is defined as any ethical system or doctrine that has been chosen as a moral guide in the particular life of an agent.

Professional Ethics - Professional ethics is defined as the personal and corporate rules that govern behaviour within the context of a particular profession.

Discrimination - Discrimination is treatment or consideration of, or making a distinction in favour of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit.

Gender Equality - Gender equality, also known as sex equality, gender egalitarianism, sexual equality or equality of the genders, is the view that men and women should receive equal treatment, importance and should not be discriminated based on gender.

1.26 Self Assessment Questions

1. What is meant by workplace ethics?
2. Define workplace ethics
3. Explain the importance of workplace ethics?
4. Explain the professional codes of ethics.
5. Explain the ethical challenges in the workplace.
6. What are the principles of ethics in the workplace?
7. What are the advantages and disadvantages of ethics in the workplace?
8. What is meant by personal ethics in the organization?

1.27 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases -2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON-2

DEVELOPMENT OF BUSINESS ETHICS

Learning objectives

1. To Know the Business Ethics in Japan
2. To understand Business ethics in America
3. To Identify the Business ethics in India
4. To learn the Business ethics in China

Structure

2.1 Introduction

International business ethics is difficult to conceptualize, more difficult to interpret and perhaps most difficult to make an appraisal. While interpreting business ethics of different countries, it is imperative to take note of a couple of caveats. First, business ethics is not static; it cannot stick at a particular plane and at a particular point in time. Second, the level of ethicality is a mixed bag containing both ethical and unethical syndromes. Therefore, in the fitness of things, it is necessary to keep in mind only the overwhelming ethical trajectory of a country. Since there are exceptions, it is hazardous to generalize on the ethical nature of a country. In this chapter, an attempt will be made to analyse the trend of business ethics in a few countries like the USA, Japan, China, India and the Arabian countries as broadly as possible.

why do the levels of ethical development differ?

In order to answer this question, one should make a distinction between religion and spirituality. Business manager of a firm may be religious but not spiritual; conversely, it is possible to be spiritual without being religious. Spirituality is the quest for discovering the meaning and purpose of life, and hence the meaning and purpose of business. It is the productivity of mind towards self-discovery. Indian philosophy advises a person to "know thyself" (atmanambiddhi). Religion, however, is a devotion (worship) to a particular deity in the framework of a system of rituals. However, having said that, it should not be forgotten that there is an invisible undercurrent between religion and spirituality. But this may not be so compelling as to unite the two.

It is apparent that most of the Western countries are pre-ethical in the sense that they have not embraced religion in a serious manner as a part and way of life although Christianity has been the dominating religion for a long time. In the name of religion, people mostly follow the rituals and rules without knowing the real meaning and purpose of life, and also of the religion. But religions ask people to look inside and to know themselves, for infinite strength springs from the self within (atmana vindate viryam). The Eastern countries including Japan, India and China, Ceylon, Nepal, Indonesia and so on had religious traditions, and religion was taken as a way of life unlike their Western counterparts. It is in this context that Rudyard Kipling's ballard: "the East is East, the West is West, and the twain shall never meet" seems to be relevant. The Eastern countries, however, are now in a post-ethical stage. They had already experienced enough of ethicality. For instance, Indian religious philosophy is more than 5000 years old and almost the same is the case with China. But as an aftermath of neo-liberal liberalization, these countries have been experiencing a clash of culture and civilization (Huntington, 1993), and their religious ethos is on the decline. The clash of civilization may not be a clash of religions as Huntington thinks, but it may arise out of a clash of ethical values.

Ethical values of countries will be more or less the same if the religious tradition is the same; otherwise, different religions will manifest different moral values and codes of conduct. This is one of the reasons why we find ethical relativism in modern times. That is, every country has different set of ethical values and codes of right and wrong. Whatever is right in the western culture may not be right in Saudi Arabia or India. For instance, an adult can smoke in front of parents in America, but it is not so in India. An Indian teacher will never offer cigarettes to his students who are in the habit of smoking but an American teacher does it. For instance, women are regarded as subordinate to men in the Islamic tradition but in the West, they are equal partners. Thus, cultural differences between the West and the Rest are very obvious. This may be partly the reason for differences in ethicality. Racial discrimination and sexual harassment in the working place are explosively higher in the West than in Eastern countries.

The impact of religious tradition on cultural relativism is often forgotten in the West because they have a very weak spiritual tradition. This is reflected in their business ethics and practices. The corporate failure of Enron and WorldCom, among many others, is unprecedented in dimension and intensity, and has nowhere been experienced in the developing world. The whole business culture was based on fraudulent window-dressing from the very beginning to the end, and excessive greed was the basic cause of the corporate downfall in both the cases.

Needless to add, when the value systems are different in different countries, the outlook to business ethics is bound to be different, and there must be different techniques to resolve the ethical dilemmas. However, there is a tacit understanding among scholars that the standard international management culture is the same, it never varies. This notion of the uniformity of business culture is known as universalism, and by implication, it is supposed to generate the same type of business ethics all over the world. However, the business reality is not so simple, as will be evident from the discussion hereafter.

2.2 Business Ethics in Japan

A bit of historicity is important to understand the Japanese system of business ethics. Japan had a long history of hibernation during the Tokugawa period. The Japanese economy became open for trade and commerce with foreigners only after the historic and revolutionary period of Meijirestoration in 1868. At the beginning, Japan had a strong history of cultural cohesion and religious ethos that dominated every field of life, including management and public administration. However, by and large, during the late twentieth century, that religious ethos was replaced by more of materialistic culture and values. Both the trends will be discussed here at some length.

Iowa Taka (1997) has described several stages of development of business ethics in Japan. From the very beginning, business ethics in Japan has been influenced by its culture and religions. Japan has three dominant religions like Confucianism, Buddhism and Shintoism. These religions compelled the country to follow religious equality everywhere including the workplace. Human equality is one of the important facets of Japanese business ethics. Japanese work culture is also the product of religious basis of life. Profession or duty is regarded as a sort of religious calling that permits people to work hard beyond the officially permissible limit suggested by the spiritual micro universe. It is said that the unflinching devotion to duty is a means to unify the individual spirit with the larger macro cosmos, and in this way, a person can enjoy harmony and peace in every walk of life.

Work is regarded as a means for self-actualization, and hard-working people are well respected everywhere. The idea of calling for material progress that is working in Japan is similar to the philosophy propagated by Calvinism and Puritanism which emphasized the importance of unceasinghuman toil and trouble from the spiritual point of view (see Ghosh, 2009, p.17). Calvinism was opposed to self-aggrandizement and self-indulgence but not to the riches. Calvin thought that the resources of the world are the creation of God, and the development of material resources through toil and trouble is a virtuous activity. In the same way, the Puritans conceded the idea that spiritual obligations including business duties are a discipline quite in accord with the Divine Will, and that by following this, a man can improve and ennoble his character. In fact, capitalism could not have been developed anywhere had not the greatest part of man's energy been channelled in the direction of work (Fromm, 1942). Max Weber in his celebrated book, The Protestant Ethic and the Spirit of Capitalism (1930) has shown how from the sixteenth century the attitude towards work and wealth creating activities changed. In Japan, the process of self-actualisation through hard work is based on ethical idealism the past, Japan had a centralized feudalistic system and that has gone a long way in influencing the system of teamwork and group practices. Hierarchical relations are still prevalent in Japan. The workers are subordinated to companies, and small groups are subordinated and pay allegiance to larger groups of corporate houses. It is indeed very difficult to violate this age-old tradition. Deviant behaviour is openly criticised and punished. Group ethics is very strong in Japanese industries and the business ethics or codes formulated by big corporate group of industries, are followed obediently by the smaller group of industries. For instance, the following business principles formulated by the Matsushita are widely followed in Japan:

- Fairness
- Harmony and cooperation
- Courtesy and humility
- Adjustment and assimilation
- Struggle for improvement
- Gratitude
- National service through industries

In Japan, there is a conscious attempt to balance between the rationalization of the West and the spiritualization of the East. The Japanese industrial ethics is always based on a visionary spirit. The secrets of the success of the Japanese industries are listed below (Ouchi, 1982):

- Caring and sharing spirit of management and workers, disciplined working environment and intimacy with the society.
- Mutual trust between workers and management and also between the management and the stakeholders.
- Loyalty to the organization. The workers and the management are in a familial relationship and the conflict between the two, if ever happens, is a healthy, constructive and cooperative conflict.
- The employment is permanent and the commitment is lifelong. The employers know the workers very well and make the right decision at the right time for their promotions. Every decision is made not by one man but by a group of executives.
- Leaders are motivated by personal integrity, hard work and social responsibility.
- Works are to be done just in time (JIT) with zero defect management (ZDM).
- Ethical values are not only to be respected but also to be translated into practice.

The seven principles cited above form the core principles of Japanese business ethics and management practices. The long-term relationship between the two concerned parties has considerably helped to build up a harmonious society. The philosophy of reciprocal help has remained the basic tenet of Confucianism and Buddhism in Japan, and contributed to the development of a harmonious business climate and growth of business ethics. The mutual trust has been the basis of Japan’s social capital. Social capital is the mutual trust for the benefit of the society. Reciprocity has influenced business ethics in the sense that it creates viable balance between sacrifice and benefit. Everybody is working hard to benefit from business. Nobody is an exception. In the system so developed, the transgressor is looked down upon and thus, finds himself isolated from the group.

The relationship between the employer and the employee is very strong and healthy. Both are implicated in a system of mutual dependency. Japanese industries do not believe in downsizing, retrenchment, merger and acquisitions and shareholders’ priorities, unlike the American system. Japan’s business ethics is based upon religious and social ethos. It is like a system of concentric circle where the outer circle does not squeeze the inner circles but both mutually reinforce each other. Concentric circle applies different ethical rules. Groups have their own spirit (numen) which is connected to the ultimate reality in a normative framework. There are two normative environments transcendental normative environment and group normative environment. These are interconnected. In a system of transcendental normative environment, the inner microcosm is connected to the outer macrocosm through a good work based on ethical values. Japan did well in retaining business ethics till the 1990s.

However, things have considerably changed in the area of business ethics in Japan after1990s. The recession had hit the economy hardly and in an attempt to recover from the recession, Japan lost the spiritual values to pave way for materialistic considerations. People started working long hours without caring for families just to establish themselves in a highly competitive world. The workers became, so to say, the company’s live stocks. In the absence of the head of the family for a long time, away from home, the family developed a different lifestyle which is not so ethical in reality. Many executives commit suicides and mental diseases are a normal outcome of karoshi(overwork). In recent years, loss of spiritual value in work, high-handed and corrupt bureaucracy, cut-throat competition, dominating profi t motive and the breakdown of employer-employee relations are the basic causes of deteriorating ethical standards in the Japanese business today.

2.3 Business Ethics in America

In Christopher Marlowe's famous play, Doctor Faustus, the protagonist at the end realizes that he has won the whole world but he has lost his soul. This is perhaps true in the case of business ethics of USA. The country is at pre-ethical stage of development. This is, however, not to deny the presence of any religious influence in the country. The constitution of the country apparently reveals the importance of God. The US currency embodies the religious faith by declaring that "in God we trust". However, the business world of America upholds a diametrically different picture.

The only business of America is business, and there is no free lunch in a capitalist system of production, distribution and exchange relations. In general, the business world is immersed in unethical practices and window dressing to rob clandestinely the poor investors, shareholders and customers. There has really been the demise of ethics in America (Thomas, 1988). This is proved by many cases of downfall of big business houses since 1990s and even earlier. The recent debacles of Enron and WorldCom are cases in point. In spite of many ethical codes and principles, and ethical mission and vision, companies are not practicing ethicality in their dealings with the public.

It is not that the country is bad but that its corporate sector is full of manipulators and drivers. The individual managers or corporate leaders may be religious but they are not spiritual in the sense that business ethics does not reflect in actual practice the basic purpose of business, corporate life and the long-term objective of the company. The core values like fairness, integrity, honesty and transparency are there on papers only. Gabor (1978) has rightly pointed out that, "Our present civilization is based materially on an extraordinarily successful technology and spiritually on practically nothing".

The American business system is based on the ideas as under:

- Excessive materialism
- Performance and productivity
- Strict market principles
- Protestant ethics (for the sake of business, any means are justified)
- The best is rewarded and the worst has to go out
- Hiring and firing of labour
- Importance of value-added
- Use of science and technology
- Individualism and freedom
- Decisions are based on benefit over cost criterion.
- Personal relations do not matter
- No ethical values like, harmony, loyalty, religiosity and spirituality are given any priority.

Under this system of business design, there is hardly any scope for ethical compulsion, and the freedom given to the corporate sector is abused and misused. The following unethical practices in business are rampant:

● Corporate leaders are tempted by a very high target of profit and the concerned employees have to achieve the target for promotion, job stability and good assignment.
● Corporate pressure compels the employees to adopt unethical ways and means
● By and large, most of the American companies violate the ethical principle of accountability. Loss of accountability has been responsible for many types of corporate crimes andmanipulation.
● Information leaking worth millions of dollars is another corporate misbehaviour. By doing this, some insiders get benefits at the cost of the company's goodwill and reputation. This is an ethical infraction because managers do not take the responsibility. The only interest of managers is to keep the business a going concern at any cost.
● The employees are not trained in business ethics, and the business environment is haphazardly diverse.
● Unethical practices like greed and temptation are rampant. Corporate leaders who are not spiritual in orientation cannot resist from these unethical lures.
● Corporate transparency is also conspicuous by its absence in many enterprises. The auditors who are appointed by the company have to work to the satisfaction of the boss who is motivated by illegal and immoral gains and window dressing strategies.
● There are also various types of discrimination like sexual discrimination, racial discrimination, religious discrimination and insider-outsider discrimination at workplaces.
● In many cases, the workers are paid much less than their productivities and just wages.
Thus, exploitation of labour is randomly practiced. Workers are used as commodities, particularly in the case of less skilled manual labourers.
● The pay differences between highly qualified manpower and low level manpower are too wide. The multinational corporations practice what is known as "race to the bottom". In such a system, the workers at the lowest rung of the ladder (manual and unskilled workers) have to face a dilemma of accepting a lower pay or quit the job
Many of the American companies are dumping goods to developing countries.
● American MNCs are also known to pollute the environmental standards of the less developed countries.

Most of the companies working unethically these days are exonerated in the name of bad business and recession which is endemic in a capitalist economy like America. However, before 1990s,

America companies were much better on the whole. But the beginning of the 1990s was also the beginning of bad days. A few lines from Charles Dickens are apt to describe the situation:" It was the best of times , it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the season of despair". (Charles Dickens, 1984)

The good news is that after the downfall of many renowned industries, many corporate houses have now realised the importance of ethics in business from a long-run perspective. Incidentally, companies that had high levels of corruption and unethical practices had to face the onslaught and they were ultimately destroyed. The recent recession of 2009 experienced much lower incidence of ethical misconduct, although otherwise it had remained very high in normal times.

All said, it is instructive to note that the Department of Commerce has approved certain business principles in America for implementation. These principles are:

- Every business needs to respect human rights.
- Businesses are responsible for environmental protection.
- Development of a legitimate business system and a corporate culture and no political coercion in the workplace.
- Encouragement of corporate citizenship.
- Business is to be based on fair principles, practices and competition.
- No bribery should be resorted to for the benefit of business.
- Maintenance of a safe and healthy working place.
- Compliance with local and the US laws while doing business.
- Fair employment practices with no forced labour, or employment of child labour. The employees should have the right of association, organization and collective bargaining.
- No discrimination at the workplace in terms of gender, religion, race and nationality.

The principles mentioned earlier, though do not cover many compelling ethical issues like social and ethical responsibilities, and so on, are fair enough. The set of principles in itself is not that important, but its fair and strict implementation. Many international business principles like the Caux Round Table Principles and the Sullivan Principles, and so on, have been enforced in America from time to time. But in spite of all that, many companies are behaving in an ethically oblique way.

2.4 Business Ethics in India

India is now in a post-ethical stage. However, many business firms based particularly insemiurban or rural surroundings are at the ethical stage and follow many of the ethical principles like justice and fairness, non-discrimination, cordial personal relationship, honesty and social responsibility. But this is not the story of all types of small and medium business firms. Some of them are over-ambitious and want to get rich quick. They do not much care about ethics in business and use corrupt practices, adulteration, tax evasion, account manipulation, and so on.

Although

Indian firms, particularly some of the big ones, are at post-ethical stage because of the influence of globalization and a fierce competition, some of the big businesses in India are still at the ethical stage and do not indulge in large-scale unethical practices.

A bit of historical development of corporate ethical practices will be necessary here to understand the evolution of corporate mentality and, hence, the corporate ethics. There are three distinct periods of industrial development in India pre-independence, the period between 1947–1990 and the post 1991 period (period of economic liberalization). In the pre-independence period, there was hardly any industrial growth and corporate ethics was not elaborate, and there was strict control by the British colonial power. The industries like the Ahmedabad textile mills, jute mills in Kolkata and some other existing industries did practice some unethical labour relations and exploitation but serious scams were absent. In the second period (1947–1990), India experienced many unethical industrial practices because of the lack of strict government control, unethical bureaucratic practices, and flexible industrial rules and regulations. Tax evasion, bribery and labour unrest were the usual practices. During the period of economic liberalization, many firms tried to be more internationally competitive and they became outward-looking. So, these firms started following international ethical practices and standard, at least on paper, and because of the conflux efficiency and ethicality, many of the Indian firms like the Tata, Infosys and Ranbaxy, to name only a few, have become well-known. The positive spread effect compelled many other firms to follow the suit and this has been improving the corporate ethics in India by and large. But all this does not mean that all firms are ethical in India.

In fact, there are two types of business firms in India ethical small, medium and large firms, and unethical small, medium and large firms.

2.5 Ethical Indian Firms

They are both spiritual and many a time religious with the following managerial styles:

● Decisions are taken on the basis of the merit of the case and these are not unreasonable or unethical.
● At the working place, respect is shown to elderly people and senior officials.
● Work is regarded as worship and official duty is performed without much consideration for its material reward, as the Bhagvad Gita teaches.
● Human rights are respected and allowed and disputes are amicably settled on the basis of cooperation and negotiation.
● Women employees are allowed privacy and respect.
● Working place discrimination is avoided as far as possible.
● Firms are engaged in performing social and ethical responsibilities.
● Employees are treated well, and often empathy plays an important role.
● Sexual harassment is conspicuous by its absence.
● Management is value-based and embezzlement, bribery and corruption are mostly absent.
● Accountability and transparency are widely practiced
● Reliable price and product qualities. Promises are kept with regard to after-sales services.
Customers' satisfaction is the motto of many fi rms. Customers are regarded as Lakshmi (the Goddess of wealth).
● The margin of profit is reasonable, and there is no attempt to cheat the customers.
Firms are guided by the idea of creation of goodwill and reputation.

2.6 Unethical Indian Firms

Unethical firms are characterized by many overwhelmingly unethical practices. The following are the manifestations of some of these practices:

● Discrimination is rampant in the matter of selection, promotion and job allocation. Nepotism and favouritism are widely prevalent.
● Adulteration, sub-standard and even dangerous products are marketed.
● Imitation of foreign brand names to hoodwink customers.
● Political pressure impinges on the ethical standard of firms. The appointment in the high post is often political.
● In some types of industries, like carpet manufacturing, use of child labour is rampant.
● Delay in wage payments and promotions are the usual practices in many small and medium firms.
● Window-dressing in the balance sheet is widely done to attract investors and increase the share prices.

● Many types of company scams have cropped up in India (for details, see Fernando, 2006).

Some of these scams include issues by non-descript companies (1993-94), mutual fund scam (1998), market manipulation scams of Harshad Mehta (1992 and 1998), insider trading scam (1994), fraudulent share delivery scam (1995) and IT scam (2000).

Ethical dichotomy (one firm having two ethical standards) is one of the important characteristics of Indian firms. The dichotomy is both internal and external. Internally, even the same ethical firm may have some unethical frills, and the unethical firms may have some ethical appendices. Examples are abundant in India. Our categorisation of ethical and unethical firms is based on the overwhelming characteristics of the firms.

Why Some Firms are Unethical in India?
All firms are not basically unethical to begin with. But as it goes on doing the business, it is confronted with a number of problematic situations that almost compel a firm to deviate from its chartered path of honesty and scruple. These circumstances are:

1. Bureaucratic pressure, including delay-dally tactics, compels a firm to spend some speed money to move the fi le. Even after liberalization, bureaucratic tentacle has not yet been completely eliminated from India. Officials often demand bribe to perform a task.

2. To keep up with the Joneses, business firms often have to do the same thing as other fi ms are doing like benami transactions, tax evasion, accounts manipulation to record less income, reduced sales, and so on.

3. While point two discussed above is the corporate practice to survive competition, the idea of going ahead of Smith, compels many unscrupulous fi rms to devise ways and means to go a step further to win the race. These include creative destruction, like, forgery, window dressing in the balance sheet, product adulteration (say instead of 500 mg of paracetamol as written on the label, the actual content may be 300 mg. of the real medicine), manufacturing of duplicate products (like medicines), and so on.

4. Absence of strong and ethical corporate policy. If the policy is weak and the manager does not make any strong commitment to ethical practices, a company cannot work coherently towards any ethical goal.

5. Absence of ethical leadership. This prevents many companies to draw ethical working plans and programmes. It is very often true that if the manager is ethically committed and very strong in character, the idea percolates down to the lower level and the whole company becomes ethical. A company is what its director or manager is. The percolation effect is a very strong factor for the ethicality or otherwise of a company. On one occasion a senior executive of a Tata company thought of saving some money on taxes. He expressed the idea and showed his accounts records to the then Chairman, JRD Tata. Mr. Tata said, “It is not illegal but is it right?

It is not after all a virtue” (Lala, 2004). The executive never came to him with the same issue and request, and the ethical ambience of the company totally changed from then onwards.

Having had some inkling about the ethical practices in India and America, we can nowsummarise the basic differences in the Western and Indian cultural-traditional outlook in Table 14.1:India thinks about value-based management, humanistic and socialistic pattern of society, and a type of balanced and total man who is imbued with the idea of morality and spirituality and plain living and high thinking. But the Western nations prefer to a have a system of profit-based management, rationality and materialism, and the type of man they want is a calculated economic person who always buys in the cheapest market and sells in the dearest market. Such a type of man lives on the ideals of high living and plain thinking and is endowed with a capitalistic mentality. For the Western countries, development means that you have to have more and more and but you still remain unsatisfied (like Oliver in Charles Dickens' novel, Oliver Twist), but for India, development means that you should grow accordingly with a high level of human development.

Table 14.1 summarizes basic differences between the Indian and western cultural traditions.

Table 14.1 Basic Differences between the Indian and Western Cultural Traditions

India	Western Countries
• Value-based Management	• Profit-based Management
• Socialistic and Holistic	• Capitalistic
• Morality	• Rationality
• Balanced Man	• Economic Man
• Spiritualism	• Materialism
• Emphasis on Ethics	• Emphasis on Economics
• Human Development	• Material development (Acquisition)
• Plain Living, High Thinking	• High Living and Plain Thinking
• Cooperation	• Conflict
• Focusing on Society	• Focusing on Self and Market

2.7 Business Ethics in China

They say that in a country ruled by the Communist party, there may not be any big scope for religion and ethics. However, it is instructive to note that ethics, particularly business ethics, is different from religion. A person may not believe in religion but he may be ethical or moral, if he follows certain ethical codes. Thus, if the ethical codes of conduct of business are followed by China and for that matter by any other communist country, there is no problem in its being a communist regime. The fact remains that China, being a communist country, considers the forces and relations of production as more critical and valuable than the formal principles of ethics. After being wedded to the capitalist market philosophy, it has become a post-ethical society, far away from its ancient tradition of Buddhism and Confucianism. In the discussion that follows hereafter, it remains to be seen whether the practice of business ethics is strong in China or not.

The erstwhile communist party of China prohibited many unethical practices existing in China. The party prohibited bribery, gift, influence from outside and some payments, and so on. The use of public funds for personal gain, large ostentatious expenditure, and spending huge amount of money on tours and in offices were also prohibited by the party. All these offences were seriously punished in China.

China is a booming economy which is the second largest in the world. It aims at becoming world's number one economic power and for this many ethical practices will have to be introduced by the government. There is a pressure exerted on China to 'ethicalize' its business world. The pressure is coming from the global business partners including America. At the moment, China has been involved in the following unethical business practices as reported in the world media:

- Selling contaminated milk powder in the world market.
- Lead paint used in toys to be used by children. Lead is a dangerous metal and is a threat to health.
- Injecting water into meat to increase the weight.
- Supply of substandard, unsafe and dangerous goods.

There may be many more undetected scandals and scams. People doubt the ethicality of Chinese business particularly for two reasons. First, it is a big question as to how China can supply goods in the world market at such cheap rates by remaining honest? Second, since China's corruption index is very high, the business world cannot remain insulated from corruption. Transparency International's Corruption Perception Index shows that China ranked 79th among 163 countries in 2009 in the matter of corruption. Corruption is defined as the abuse of public office for private gains. The puzzle is, in spite of serious problems of integrity and corruption, how can its economy prosper in a continuous manner? One plausible answer to this question is that China is a big supplier of products to the largest corporate firms in the United States. These firms always insist on cost reduction.

Hence, China has to find ways and means for cost reduction, and the result is unethical business practices

Back home, China is involved in a number of unethical business practices. The following are only a few examples:

- Labour is highly regimented with no workplace freedom and with only limited occupational MobilityWage is much lower than the productivity of labour and virtually there is a rampant exploitation.
- Working hours are long and arduous.
- Labourers are the most oppressed class in China. They have no outlet to address their grievances. Although their contribution is the highest in the country's economic growth, they live a miserable and dehumanized life. Trade unions are not permitted in China.
- Labour laws and rules are very strict. The Western philosophy of hiring and firing is frequently practiced by the management. There cannot be any protest.
- The government itself is involved in various types of land scams where it buys the land of small and poor farmers at throwaway prices, develops it and sells at a much higher price or builds houses and sells at exorbitantly high prices. This practice of government is unethical on two counts: First, the land deals are not consensual, and second, these poor farmers are not given alternative employment or means of livelihood. They are reduced to the status of proletariats.
- The Chinese labour market has been experiencing capitalist orientation since long where labour is bought and sold as a commodity.
- Dissident groups are routinely arrested and imprisoned without trial. Incidents of torture, forced confessions and forced labour are widely reported (Ghosh, 2009, p.78).
- The human rights record of China is already tainted since the time of Tiananmen Square incident of 1989 when about 3000 civilians died and thousands more were injured.

● Inequality of all types is very high and gradually increasing in China. For income inequality, the value of Gini coeffi cient, which is a measure of inequality, was 0.27 in 1986 but it rose to 0.44 in 2004 (Ghosh, 2009, p. 28).

● Favoritism and nepotism are widely practiced in the industrial world. Business ethics in China is influenced by a number of factors such as the Chinese traditional ethics, the influence of the Marxist philosophy, principles of reforms and the global factors (Xiaohe, 1997). Before 1978, China was dominated by feudalism and there was hardly any scope for the use of ethics in business. Only some mistaken class consciousness was prevalent in the society. Even now, a section of the Chinese intellectuals and government spokesmen do not want to follow the western ethical codes. The Chinese government wants to develop its own code of ethics instead. However, it wants to retain some of the fundamental ethical codes of Confucius like responsibility towards family, care and compassion, and so on.

In formal terms, ethics is given low priority in the Chinese business circle, and there is no importance of social responsibility in business. However, in many cases, ethical dilemmas cannot beavoided. For instance, at the time of downsizing, who is to be retrenched, an old man or a young man? If an old man is retrenched, the business neglects justice and compassion, and if a young man is retrenched, the business loses efficiency.

Business ethics in China is influenced by the interplay of the principles of three religions: Confucianism, Buddhism and Taoism. Sometimes it is called three-in-one business negotiations. Chinese business people follow three basic rules for business negotiations. These are: trust, strategy and the principles of bureaucracy. When the trust is very high, the negotiation is done like a gentleman. When the trust is low, then a suitable strategy needs to be applied and when the political factors are important, bureaucratic principles are to be used for negotiations. For doing business in China, it is not so much the business ethics that is important; what is more critical is the sharing of the same heritage and values.

One of the reasons why business ethics is neglected in China is that, until now, all the organizations in China are to follow strictly the government rules and regulations. They have no freedom to violate those instructions. However, the government is not fully a communist type, but there is a system of one party rule the communist party. In that framework, the Chinese philosophy is basically capitalist in nature, and hence, market rules or principles are more important than ethical rules.

However, of late, since China is becoming more and more a global player, it has to reduce many unethical practices including corruption. Rather than favouring corruption, Mozia, a 5th century philosopher suggested a law of protection (Rothlin, 2004). Nobody knows how effective it would be. But in practice, corruption takes a long period of time to get eradicated in the absence of a pervasive sense of spirituality.

2.8 Business Ethics in The Arab World

Some of the Arabian countries are at the ethical stage and perhaps their business ethics is more consistent and perfect than those of many of the developed capitalist countries. Business in the Arabian world is based on the religious ethos of Islam. Rather than using the term business ethics, Islamic scholars use the term, halal and haram. Halal is something ethical and permissible and haram is ethically bad and prohibited in these countries. Based on the instructions of Islam, these countries form their ethical rules in business. Since the Arab people are guided only by their religious ethos, they do not feel the need for business ethics. The private sector is neither influenced by the idea of business ethics nor do they have any such code. There is no organized effort to promote business ethics in the Arab world. There are corruptions among government officials and every country has its own Vigilance Department and Central Audit Agency.

Some of the ethical/unethical business rules are as under:

● In the area of business, like all other walks of life, men and women are segregated. If there is a woman manager, the contracting or negotiating part must have a woman to talk to her. The woman in Arab must use a long veil.

● One has to respect the Arabian rules and follow them strictly. They are all based on the Islamic culture.

● It is not good business etiquette to say “no” directly. Put it in a roundabout way so that the other party gets the message.

● A businessperson must have a business card written in English on the one side and Arabic on the other.

● During the business negotiation, nobody is permitted to consume alcohol, smoke or even have coffee. These are considered haram, although smoking through water-pipe is permitted in some countries.

● Prayer time must be observed, and there will be no negotiation during that time.

● All trade must be in halal products and no haram product should be traded in or out of the country. For instance, pork is a haram product.

● Charging of interest on loans is not permitted in Islam.

● Compromises with the religious and ethical beliefs under pressure are highly deplorable,and will be punished according to Muslim sharia laws.

● Padding an expense account is unethical, but offering a gift to a purchaser is ethical.

● Unlike in the United States, bribery is permitted in the Arabian countries. It is regarded as an incentive and a way of doing business. It is not unethical.

● Nepotism is rampant but it is not unethical.

● The idea of corporate social responsibility is gaining ground in the Arab world but it is still in its nascent stage.

● According to the Arabian perception, there are the following four essential characteristics of business ethics:

■ Loyalty: Loyalty to the religion, to authorities and culture and tradition.

■ Consistency: The behaviour pattern is uniform and there is no drastic change in the personality pattern.

■ Predictability: The behaviour of the negotiator and authorities is predictable. It is also related to consistency.

● Labour market gender discrimination is very conspicuous. But it is not considered to be ethically wrong. It is to be noted that the labour market dynamics of the Arab world is a conflux of the spiritual reality of Islam and the materialistic actuality of the neo-liberal globalized world (Ghosh, 2010). Women are segregated to low-paying occupations and their unemployment rate is very high. The private sector is not much interested in employing women as they have to be given maternity benefits.

However, the recent trend is that women are making an in-road to the male-dominated professions, and, thus, there are now women employees in stock exchanges and cyber clubs. However, women do not own any means of production and do not participate in the decision-making processes. But things are changing now in the Arab world.

The integrations of Western modernity with deeply-rooted religious beliefs and culture produce a unique business ambience in the Arab world. One can find a peculiar mixture of the growing trends of modernization and Islam. The introduction of market Islam has been responsible for the generation of Islamic capitalistic spirit and prosperity theology. All these have been instrumental for many products that are truly Islamic, like Islamic banking practices with many new products, Islamic finance, profit-sharing schemes, and their own Islamic products including non-alcoholic drinks, and so on. These are becoming popular among the Muslim countries. Sustainable development organization has already been established and it is doing good works for a sustainable development and putting the environmental issue on the top priority of the government.

All said, it must be appreciated that the Arabian people do not put any organized efforts to develop business, unlike in the western countries. They neither have the outward-looking business strategy or policy, nor do they have any business acumen and expertise. However, other people including the MNCs are doing business in their land to tap the natural resources of which oil remains very important. Thus, in order to deal with the foreign business people and MNCs, the Arab world is now interested in knowing some form of standardized global business practices and rules. It is in this context that business ethics becomes relevant to them. However, this involves a cultural dualism in the sense that on the one hand they have to be a part of the progressive trend of Islam and on the other they have to deal with the external forces of modernization and globalization. It is indeed a big challenge to make a judicious compromise or a trade-off between these two compelling and emerging trends which are somewhat contradictory in nature.

2.9 Summary

The levels of ethicality differ mainly because of the influence of religion or spirituality. When the firm owner is guided by the dictates of spirituality, he understands the meaning and purpose of life and also the desirable objectives of his firm; whereas a religious-minded man knows only the exoteric aspect of religion which consists of many rituals and details of outward behaviour. A spiritually-inspired firm is more ethical than a firm which is guided by religious rituals. The levels of spiritual development also make a perceptible difference. Most of the western countries are at the pre-ethical stage whereas Asian countries in general are at post-ethical stage. These countries are now under the influence of liberalization and globalization. They are forgetting their religious ethos and tradition.

Japanese work culture and business ethics are influenced by religious ideas. Group ethics is very strong in Japanese industries and the code of ethics formulated by big firms is followed by small firms. Japan makes a balance between the rationalization of the West and the spiritualization of the East. Japanese industrial ethics is based on seven important principles like, respect for ethical values, caring and sharing with environmental intimacy, mutual trust, loyalty, lifelong employment, personal integrity and hard work. But after 1990s, the spiritual value system is decaying and business is becoming more profit-oriented.

In America, there is an excess of materialism through the successful use of science and technology. The motto of America is only business. Free market philosophy and profitmaximisation principles dominate the business world. Although on paper, most of the rules and principles of corporate governance are followed, but in practice, there are dangerous violations of almost all the ethical principles. For instance, violations of accountability, information leaking, unethical business practices, discrimination, dumping, and environmental pollution, and so on. Before 1990s, American companies were much better but with the dawn of the new century most of the giant companies became extremely unethical and had to face financial stresses and strains and downfall.

However, some of the companies learnt from the past mistakes and started behaving well. The Department of Commerce approved a list of business principles for making the companies more accountable, transparent and ethical.

2.10 Key words

Business ethics- “Business Ethics’’ can be defined as the critical, structured examination of how people &institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self – interest or (for firm).

2.11 Self Assessment Questions

1. Why do the levels of ethicality differ? Explain with suitable examples.
2. Compare and contrast the business ethics of India and China. Which one is better?
3. Why is the US called a pre-ethical country? If it has any business ethics, then why so many important corporate houses failed?
4. Explain fully the basic characteristics of Japan’s business ethics.
5. Critically explain the business ethics of India. Compare it with that of the USA.
6. Why is China progressing so fast as a global business player in spite of its questionable business integrity?
7. Of all the countries that have been studied, whose business ethics has influenced you the most and why?
8. Arabic people are religious. Does it mean that they are ethical? Explain your views.

2.12 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases -2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON -3

IMPORTANCE NEED SIGNIFICANCE OF BUSINESS ETHICS

Learning objectives

To Understand the Evolution of Business Ethics
To Know the Nature of Business Ethics
To Discuss the Nature of Ethical Enquiry in Business

Structure

We start off with an important verse from the Bible which says that:
"Whoever has will be given more and he
will have an abundance. Whoever does not
have, even what he has will be taken away from him"
(The Bible: Matthew, Xiii:12)

3.1 Introduction

Although the Bible here makes an allusion to the spiritual knowledge and faith, the idea can be applied in the case of business too. All businessmen need to accumulate capital, and such accumulation if done in a wise way will lead to abundance. Money begets money. However, a businessman who cannot accumulate will soon have to face diminishing returns. In another sense, from the long-term perspective, a business based on honesty, sincerity and ethical values, will have a sustainable future with abundance and if one does not have it, one cannot survive in the long-run. What many empirical studies have revealed is that, critical consideration for the meaningful survival and growth of any organization is its ethical premises and not simply its machinery, workforce and material stock. It is in this context that one examines the importance of business ethics and values. Historical evidence has shown that many European and American firms which were very prosperous in the past have been reduced to shambles only due to unethical behaviour, fraud and immoral personal gratification. Implicitly or explicitly, business ethics, thus, remains very critical to the sustained growth of a company. This chapter discusses the meaning, nature, scope and other related concepts of business ethics.

What Is Business Ethics?

The following are some of the important definitions of business ethics. These definitions are similar in ideas but differ in wordings:

● Business ethics is the application of the principles of ethics in the realm of business, trade and commerce.

● Business ethics is the evaluation of business in terms of certain ethical principles and norms.

● Business ethics deals with certain moral principles that can tell us whether a particular business concern is run in a morally right or wrong way.
● Business ethics is the systematic analysis of ethical principles pertaining to business, industry, commerce, trade and other related activities, institutions, beliefs and practices.
● Business ethics is the sum-total of rules and principles which can be regarded as the standard norm to evaluate and guide business activities.
relation between ethics and business ethics

There are definite interconnections between ethics and business ethics. Many of the theories, principles, concepts and precepts of ethics are successfully used in business ethics. In fact, business ethics is the practical application of theories, principles and rules of ethics. Indeed, many interrelations between these two subjects can easily be established. The theories of ethics can effectively contribute to the growth of the subject of business ethics. There are at least the following three inter-relations between these subjects.

First, ethical theories offer various concepts and precepts which are relevant to business managers in conceptualising certain ethical issues in relation to business. Some of these concepts are: deonticism, utilitarianism, consequentialism, morality, value and virtues, and so on.

Second, ethical theories provide a set of analytical guidelines and moral standards, which can be directly or indirectly applied to the solutions of business problems in a fairly just and satisfactory way. A proper knowledge of the standards and principles of ethics can make a manager more analytically capable and expert in interpreting many ethical issues in business in day-to-day life.

Third, one of the most important ways in which ethical theories can contribute to business management is the building up of ethical models (framework) about ethical decision-making, ethical audit, solving ethical dilemmas, and so on. This exercise helps managers understand the structure of ethical problems in management and assist in providing an ethical solution to the same.

It must be understood that ethics and business ethics are integrative in nature, and there are many commonalities between these two subjects. Whereas ethics is more theoretical, business ethics is more practical and is the application of the theoretical principles of ethics, as revealed in the definitions given earlier.

3.2 Evolution of Business Ethics

Business ethics is a rather new discipline. But the idea that ethics is important in business goes back to the time of Socrates and Confucius and many catholic discourses. In the medieval period, the schoolmen introduced the idea of just price. St. Thomas Aquinas (1225–1274) condemned usury (lending money on rate of interest) as unethical. The churches advised the observation of Sabbath (Sunday) as the day of rest for all employers and employees. However, gradually ethics was pressed into service for the analysis of work culture. St. Paul went so far as to say that if a person does not work, let him not eat.

With the development of capitalism, the entire gamut of work ethics got dramatically changed in the Western world. In terms of historical sequence, the change from Mercantilism to individualistic capitalism and then to corporate type business enterprise is a reflection of changes in attitude towards a new institution for promoting business enterprises. Commenting on the economic progress of the seventh century Holland, William Petty observed that in Holland, there were numerous dissenters who believed that labour (and industry) was the sacred duty towards God. The glorification of human work can be traced back to the days of early capitalism. Calvinism and Puritanism emphasized the importance of unceasing human toil and trouble for the growth of business from the spiritual point of view (Ghosh, 2009, p.17).

Max Weber in his book, The Protestant Ethic and the Spirit of Capitalism, has shown that how from the sixteenth century the attitude towards work and wealth-creating activities changed. In the medieval society and also in the Aristotelian period, a life of meditation and contemplation was acclaimed and in the scholastic economy trade was considered undignified. Merchants were one round higher than pariahs. This attitude underwent a change from the time of Calvin. John Calvin was opposed to self-aggrandizement and indulgence but not to accumulation of riches. According to him, the development of material resources through toil and trouble is a virtuous activity which a businessman should perform. Parables of Talents were cited from the Bible to support economic activities and productive works. Calvin developed the idea of spiritual callings to materialize the activity relating to economic progress. The Puritans conceded the idea that spiritual obligations including business duties are a discipline quite in accord with the Divine Will, and by following this, men can improve and ennoble their characters.

The spirit of Christianity became somewhat different with the rise of Protestantism. Protestants actively associated themselves with business and industries. Religious ethics has had a definite impact on the attitude towards the growth of business. Confucianism valourizes hard work, sincerity and honesty, and Hinduism advocates deontic notion of duty without any desire for the results of the action. Both Confucianism and Hinduism do not lay any stress on materialistic acquisitions and culture. In India, in the early twentieth century, the businessmen who accumulated wealth were not given much social respect, and for the same reason, some of them were out-grouped such as the Parsis, Jains and Marwaris. However, being an out-group, a particular business community could break the established social tradition. But with economic development, the attitudes towards these business communities gradually changed and they were again brought back to the social fold and were respected.

Sometimes, an anti-religious philosophy can also help the growth of business and trade. In the communist ideology, the will of God is replaced by materialistic dialectics. Marx has accepted that although capitalism has many attending evils associated with unethical activities like exploitation of labour and dehumanization of labour, there is no denying the fact that capitalism is the most progressive mode of production.

The classical and neo-classical views considered business ethics as irrelevant and supported unbridled expansion of capitalism and market forces. According to these views, business and ethics are two separate categories, and these cannot be meaningfully mixed up. Free market competition, they say, can lead to several types of benefits supported by the theories of both deonticism and utilitarianism (consequentialism). The following are ways through which a free market philosophy leads to social and economic benefits, and so becomes ethical.

3.3 Benefits of Free Market Philosophy

1. Market Ethics may generate social benefits through human selfishness. All sellers, motivated by self-interest, provide goods and services in abundance and all the essential social needs are satisfied by the mechanism of free market forces. Adam Smith believed that in a free market economy, self-interestedness leads to social welfare and happiness.

2. Competition and free market price setting may lead to maximization of production with minimum possible per unit cost. This generates the producer's and consumer's surpluses that positively benefit the society. Competition reduces prices and a large-scale production decreases the unit cost of production with economies of scale and scope. Thus, competition in business becomes ethical (see the chapter on Ethics and the Market Structure in this book).

3. Expansion of business renders free choice and liberty for the consumers. This satisfies the libertarian view of ethics, and the growth technology and different means of production give a choice to producers too regarding production technology, production methods and production mixes. According to one view, more the choice more is the freedom and more is the satisfaction, welfare and happiness. The libertarian idea is propagated by John Locke and Nozick, among others.

4. As discussed earlier, the ethical foundation of the growth of capitalism was provided by Max Weber through his writings on Protestant Ethic and the Spirit of Capitalism. It is already explained in this chapter how the principles of protestant ethics led to the ethical justification of work efforts and business expansion.

5. Free market philosophy maximizes individual freedom and utility (utilitarianism). It also leads to better utilization of social and individual potentials and social resources, higher employment opportunities and overall economic growth and increased real per capita income (consequentialism).

Against the two extreme views of medieval writers and classical writers, there is an integrative view taken by Talcott Parsons and others who claim that business is not an extension of morality nor it can be wholly separated from ethics; both are complementary in nature.

3.4 Contemporary Development

The issue of ethical consciousness in business can be classified into the following six periods. However, this periodization is not based on any clear-cut apple-pie order of historical events but is based on the broad trend with the temper of time. A short account of the historical evolution of the growth of business ethics in America is given in the following chart (see, Ferrel et al. 2003, pp. 25, 29).

An analysis of contemporary development reveals that business ethics was born Nov. 1974 at the University of Kansas Conference on Business Ethics (Bowie, 1986). Subsequently, the greed resulting in "Wall Street Scandals" of the 1980s shocked many observers and instigated them to think about some suitable changes in the managerial psyche (Bradburn, 2001). As a consequence of all these, a few things happened in the United States, such as the development of code of ethics, employees' rights movement, changed relation between business institutions and civil environment in which business operates (Kitson and Campbell, 1996)

HISTORICAL EVOLUTION OF BUSINESS ETHICS

Before 1960s	1920s: Capitalism was in question and employers were asked to provide fair wages to employees. 1930s: The New Deal blamed business for the economic predicament and lower personal income. 1950s: President Truman considered environment problems as ethical issues to be addressed by business management.
1960s	Religious leaders and Catholic Churches raised questions about morality in capitalism, labour practices, workers' rights and unfair wages. Many catholic colleges started courses on social ethics. Religious tradition provided the very building block for the growth of business ethics. Consumers' movement became strong and President Kennedy passed Consumers' Bill of Rights protecting the safety of consumers from the unethical business practices in America.
1970s	Growth of the idea of corporate social responsibility. Businessmen became more aware of ethical issues in business and the Watergate Scandal focused on the importance of ethics in administration and government. Many unethical business practices came to the fore and business ethics became well entrenched as a subject of study particularly after the conference on the subject in the University of Kansas in 1974.
1980s	Business ethics was formally recognized by various business organizations. 500 courses were offered in colleges and ethical organizations started growing in leaps and bound. Defence Industry took the initiative of guiding the corporate sector in matters of business ethics. The new wave of globalisation was responsible for many structural and operational changes in business, and since business became more international, the local rules of business had to be replaced by international ethical values.
1990s	This was the period of institutionalization of business ethics. Bill Clinton worked hard to implement business ethics particularly in health-related business organizations. Organizational ethical compliance programmes were stringently applied in business organizations. Companies were forced to formulate their own corporate values and implement them seriously. Thus, business ethics became institutionalized.
2000s	In spite of the institutionalization of business ethics, many business houses in America did not like the idea and were often involved in scandals. Many person and firms were involved in accounting scandals, unethical business practices including Arthur Anderson, Enron, Halliburton, and so on. Laws have been made stringent to make the Directors and top bosses accountable for discovering the risks associated with ethical risk in business. It has been realized that ethical reputation of a company may be more damaging than the financial risks involved.

3.4 Nature of Business Ethics

There are generally two recognized perspectives of BE: the naturalist approach and the normative approach (Frederick, 2002). The naturalist approach to BE takes into account the natural laws, natural religion and nomological principles embedded in the natural system. The normative approach is couched in empirical terms. Business ethics is essentially a normative science where one talks about various ethical norms, and standard practices as prevalent in a particular country. As has been pointed out earlier in Part One of this book, ethical consideration is relative in nature. Thus, some values in business may be ethical in a particular context or country but may not be ethical in another situation. However, there are some absolute ethical considerations like honesty, sincerity, fairness, and so forth which are transcendental in nature and are equally applicable in all types of business concerns.

3.5 Nature of Ethical Enquiry In Business

There are the following five dimensions of the ontology of business ethics:

1. Business ethics as a subject is analytical. Its purpose is to analyse things as they are. The nature of this type of study is known as positive study. It is both a normative and positive science.
Business ethics is diagnostic in nature. After examining the various aspects of business dealings, operations and management techniques, it is possible to know the ethical or non-ethical pathology of the business.
3. Business ethics is evaluative in nature. It makes an evaluation of business dealings, overt firm behaviour and performance and comes to judge whether a particular business concern is ethical or not.
4. Business ethics is prescriptive in nature. It makes various prescriptions to eradicate the unethical behaviour of the firm so that it can be ethical. It suggests many corrective ways and means to purge the firm out of the morass of moral wrongs.
5. Business ethics sets the moral standard in business as its guiding principle to be followed in all its dealings with the public, employees, suppliers and consumers.

Scope of Business Ethics

Business ethics works at different planes and levels. It encompasses different levels of activities:
Individual level (Personal level)
Organizational level (May or may not be business organizations)
Association level (May be with various types of institutions and domestic associations)
Societal level (Customers, Banks and Government)
Internal policy making (Making business strategies)
Global level (Business interactions)
In all these five levels, some ethical issues are conspicuously present and such issues come within the domain of business ethics. For instance, whether tax is to be evaded or not, whether price is to be raised or not, whether insider trading is to be encouraged or not, are all considered as ethical issues. The scope of business ethics is very vast. It encompasses the following areas where ethical issues are directly or indirectly involved with a business concern:
1. Ethical responsibilities of business
2. Unethical practices in HRM, finance, marketing and informational technology
3. Ethical responsibilities towards employees, consumers, suppliers, and other stakeholders
4. Ethical leadership and performance of social responsibilities
5. Ethical decision-making and solution of various types of ethical dilemmas
6. Ethical issues in corporate governance
7. Ethical business strategy
8. International business ethics
9. Ethical audit
10. Professional ethics
The list can be extended by making many more topics in the area of business ethics. However, these areas of utmost importance in business ethics.

Towards a New Direction

The subject of business ethics is now taking a new trajectory (see, Frederick, 2002). The following five main directions are clearly visible in the horizon of the contemporary scenario of business ethics
1. One of the contemporary trends of business ethics is to explain things in the context of ethical pluralism that admits validity of many moral standards in different contexts. This also

permits a business decision to be taken not in isolation but with reference to many theories and interpretations of morality.
2. Fact-value distinction is becoming more prominent now, and this has resulted in the separation of empirical and normative business ethics.
3. The idea of individualism is gaining popularity, and it puts the individual against the community. Thus, an implicit choice between communitarianism and libertarianism becomes obvious.
4. Environmental ethics is becoming an integral part of business ethics for many obvious reasons.
5. The application of top-down rules and at the same time the fixed-end reasoning is giving rise to a situation where the demand of internationalism cannot be neglected any more.
The introduction of globalization since 1980s has changed the whole scenario of business ethics by making it more complex and convoluted in the context of cross-country differences in ethical norms. Another factor that has given a new dimension to business ethics is the public opinion in favour of sustainable development (Crane and Matten, 2003) as also the environmental ethics. These aspects are discussed in the relevant chapters of this book.

3.6 Need And Purpose Of Business Ethics

Business ethics is necessary to give guidance to uphold the interests of stakeholders including consumers, shareholders, suppliers, distributors and investors. Business ethics is necessary to remind the business firm that it is the moral duty of the firm as a part of society to undertake some social responsibilities. The following are the five primary objectives of business ethics:

Objectives/Purposes

- Business ethics teaches us the ethical rules and principles that are relevant for business.
- Business ethics is concerned with the application of ethical standard and values to business.
- Business ethics teaches the manager as to how to run the business on ethical lines.
- The rules of business ethics enable a business firm to identify the areas which are not practicing
ethical principles and therefore can prescribe the necessary ethical code.
- Business ethics can help a firm to make business decisions and strategy which are morally fair, just and consistent

3.7 Importance of Business Ethics

Nobel laureate, Sir John Hicks, once said that the best of all monopoly profit is a peaceful life. Aristotle also observed that the happiness of mind can be multiplied several times if one follows certain virtues in life. Needless to say, these virtues give us an ethical life, be it in business or in any other profession. Virtues are intrinsically valuable. Business ethics has both micro and macro ramifications. The micro aspect of business ethics is related to the private and professional life of a manager or CEO. The macro dimension of business ethics encompasses all aspects of business world including policy making, settle of conflicts, and running of day-to-day business. At the macro level, many unethical practices are confronted in a business concern like, unfair discrimination among employees, immoral competition, bribery and corruption, deceptive information, forgery, cheating, and so on.

Business behaviour in the macro perspective is based on mutual trust, faith and consideration. This trust is found generally between employer and employee, customers and sellers and suppliers and purchasers. These relations have to be based on some tacit normative moral standards. Thus, ethics can be very useful for running a business successfully. The importance and significance of BE can be summarized as given below.

● BE provides a broad framework for giving guidance to all those who run the business. This guidance is based on certain moral principles that we derive from ethics. Without such a framework, business may go haywire.

● A company based on ethical principles is trusted by all the stakeholders like customers, suppliers, employees and the public. The visible and invisible benefits of such a trust may not be quantified in the short-run under all circumstances but its benefits can be realized in the long-run.

● A business based on ethics improves its social image which gives it a long standing goodwill and financial pay off at the end. A better public image brings about many types of positive externalities and consequences.

● Business ethics improves and strengthens organizational culture at all levels both within and without. When the whole organization is motivated by a unified culture, the milieu of work and motivation, compliance and respect for the company automatically improves. This is indeed a great advantage for not only making a policy but for its implementation as well.

● The strategic value and decision-making goals of a business concern are founded on ethical beliefs and values and not on its balance sheet position and profit mark-up. While monetary norms are transitory, ethical values create a solid foundation for all time to come.

● A company which is ethically strong and committed generates a sense of empowerment and security among its employees and stakeholders.

● Ethics-based companies are empirically found to have strong team work, commitment and higher productivity than similar other firms which have no ethical foundation.

● Ethically conscious employees and management are responsible for changing the work culture and motivation towards a better end without any formal inducement or coercion.

● A company run on the basis of business ethics can avoid many types of work-related conflicts both within and outside the fi rm. The principles of fairness and justice in running the fi rm save it from many possible harms, injustice, unfair discrimination and exploitation. Even if there is any conflict, it can be hoped to be solved on the basis of cooperation, justice and fairness.

● A business firm that is run on ethical principles can save a lot of money every year as it can avoid criminal and legal involvement. Indeed, the economic costs of sin are very high. A study by Morse has revealed that many corporations have paid enormous financial penalties for acting unethically (Morse, 3003, p.14).

● Many types of market failures that arise from misleading information, lack of transparency, non-absorption of harmful externalities of firms can be prevented by ethically run organizations. Needless to add, the economic cost of market failure in any society is indeed prohibitively high.

In fact, laws cannot protect a society, but the ethical foundation can in many cases. It needs to be realized that there is no necessarily compelling contradiction between the profit maximization philosophy of a firm and its ethical moorings.

3.8 Approaches To Business Ethics

There are basically the following three approaches to Business Ethics.

1. Profit-based morality approach. This approach recognizes the symbiotic relation between profits and moral activities (Hartley, 1993). Thus, when the profit of a firm is high, its morality gets a better priority. In such a case, morality is a function of profit and there is a positive correlation between the two. This is supported by Robert Hartely's study of 20 empirical firms in the United States.

2. Law-based morality approach. This approach believes that the laws of a country are mostly based on moral principles. Thus, if a firm or a person obeys the established laws of a country, then morality is also obeyed.
3. As against the above two approaches on morality, there is a third one that derives its strength from the prevailing natural laws and spiritual practices and advices. This approach upholds the view that there the following five moral obligations for business ethics (Laczniak, 1983):

■ Veracity principle. A business firm should follow the truth under all situations.
■ Non-injury (no harm) principle. A business firm should not harm anybody.
■ Fairness (Honesty) principle. A business firm must remain honest in its dealings.
■ Human Rights principle. A business firm must respect and maintain human rights.
■ Autonomy principle. A business firm must ensure that it does not make infringement of human choice for goods and services.

3.9 Sources of Ethical Knowledge for Business

How does a business firm know what is good and what is bad? There are five possible sources of ethical knowledge for a business firm

Empiricism: According to this view, the knowledge of moral right or wrong comes to a firm by experience and empiricism. The experiential knowledge may be acquired by the firm or it may be vicarious (that is, gathered from others).

● Intuition: The knowledge about what is right and what is wrong is acquired through intuition. Introspection is very helpful to know good and bad things.
● Principle of Rationality: A rational human being, as a businessman is, can, on the basis of common sense, know what is good and what is morally bad. This rationality is inherent in rational people.
● Principle of Revelation: This shows that what is already revealed is an important source of ethical knowledge. This revelation may be known through scriptures, divine knowledge, experience of others and the age-old traditional teachings, customs or practices.

A study by John Steiner and George Steiner reveals that in the case of the American business, in general, there are the following six primary sources of ethical knowledge:

1. Philosophical system existing in a country does influence the pattern of business behaviour. What has been found in actual practice is the influence of a particular type of philosophy on a particular type of person/class. Some business people are basically influenced by the prevalent contemporary philosophical consciousness/system.
2. Legal system is an influential factor in business ethics. Good or even bad business people generally have to follow the existing laws in the country, although the latter sometimes take advantage of the loopholes of laws.

3. Codes of Conduct. There are various codes of conduct that business people have to adhere to. These codes relate to operating business policies, company codes, and the Affirmative Ethical Principles of the American Institute of Certified Public Accountants. Different types of industries in USA are formulating different appropriate codes for various businesses. The process of codification of ideal business behaviour is itself a proof of the seriousness of business ethics in America. However, a simple formulation of codes does not by itself guarantee the implementation of ideal ethical business behaviour.

4. Cultural Experience. Culture, standards and customs are transmitted from generation to generation and these become the standard societal norms that are broadly followed without much questioning. This is one of the ways that individual business norms are influenced and

formed. Cultural experience is a strong guideline for the running of business in a particular way.

5. Genetic Inheritance. Evolutionary forces of natural selection considerably influence the development of individual characteristic traits such as proclivity to do good or bad works, cooperative spirit and conflicting attitudes, and so on. These traits vary from individual to individual and can explain broadly the ethical or unethical human behaviour in business and society.

6. Religion and Religiosity. Religion is a very strong force in individual actions and behaviour, and every religion does teach more or less the same type of absolute ethical or moral behaviour regarding what is good and what is bad. However, some people are religious but not spiritual; they do not strictly follow and practice the basic religious teachings and nomological axioms particularly in the conduct of business

In many Eastern countries, religion is very strictly adhered to. For instance, Confucianism in China and Japan, Hinduism in India and Islam in the Islamic countries, has established themselves as the basic external (or internal) sources of morality. But in the United States, the external source of morality seems to be very weak, although Christianity remains a generalized type of religion. The influence of religion on the American business psyche is minimal or marginal. This is so because the materialist culture generated by the philosophy of capitalism or marketism always gains the upper-hand.

Ten Popular Myths about Business Ethics

There are many popular myths about business ethics. Some of the most popular myths are discussed below (McNamara, 2003; Weiss, 2009, pp. 27–31).

Myth # One: When a business house is obeying the laws of the land, it is ethical. However, this view is not correct simply because all laws are not ethical, nor is all ethical behaviour legal. There are indeed many examples to substantiate this view. For instance, if your neighbour dies, law does not ask you to visit the house but ethics does demand that.

Myth # Two: Business ethics is best suited to philosophers but not to others.
This is not really true. Business ethics might be formulated by moral philosophers but it is to be practiced by businessmen and business corporations. The subject has many practical values. It is a new business discipline.

Myth # Three: Business ethics is more a matter of religion than of management.
As a matter of fact, some of the ethical principles may be based on religion but not all. Moreover, business ethics as a subject is an attempt to implement ethical rules or standards in decision-making, policy framework and conducting day-to-day business activities. Such ethical rules are very much applicable to business management.

Myth # Four: Business ethics is preaching of good persons to bad persons, and even good persons can make mistakes and take bad decisions.

The statement is factually incorrect. Business ethics is not preaching; it is the actual implementation of ethical rules and standards to business practices, policies and regulations. The application of such rules is not undertaken by a single person but by the committees and a group of persons who formulate such policies. There is hardly any chance of mistake in that type of policy making.

Myth # Five: Business ethics is a new type of policing in business and is a recent phenomenon.
The purpose of business ethics is misunderstood by many. It is not a type of policing but is a set of self-imposed ethical rules for the betterment of business climate and the sustainability of a long-run profit and business goodwill. It is, of course, a recent subject of business management.

Myth # Six: Our employees are reasonable and good people, so business ethics is not Necessary
This view is complacent but not necessarily correct. The point is that a good person or a reasonable person is not necessarily a moral person. For instance, a manager may be very courteous and polite in his behaviour but he may be quite unethical in his business. He may be an adulterer, engaged in manipulating accounts or may be out and out a corrupt person. A good behaviour may be a mask.

Myth # Seven: Business and Ethics cannot go together.
This is a very popular myth, but like all the other myths it is empirically incorrect. It is sometimes pointed out that business people are not necessarily immoral but may be amoral. Some people, however, believe that the statement that businessmen are amoral is in itself a myth (DeGeorge, 1999).

They are very much involved in shady deals as history has proved in many countries including the United States in the Twentieth century. Many other cases also prove to the contrary that business can run very well on the basis of honesty and morality. Many business houses accept the age-old truth that honesty is the best policy.

Myth # Eight: Business ethics is a personal or private matter and not for public debate or practice.
This view is held to be true by many including Milton Friedman, a noted economist. According to this view, corporate social responsibility, which is an extension of the principles of business ethics, is not appropriate for the business world. This is so because business men are not professionally trained to perform such responsibilities (Friedman, 1970, Sept. 13).

However, the truth of the matter is that individuals have to make business decisions by taking into account the milieu, the institutional matrix and the legal framework. If they work in a socially irresponsible way, they have to pay the penalty. Hence, business needs to be socially responsible.

Myth # Nine: Good business means good ethics.
A question that at once can be asked is–what is good business? Does it mean good profit, good market share or good volume of sales? Whatever be the answer in this case, it does not imply good ethics in a compelling sense. One can have, say, a thriving pharmaceutical business but the medicines may be cheaper but sub-standard, and this fact is not known to the public, so the sale continues. For instance, a blood pressure lowering medicine amlodipine basilate tablet for which the correct dose is 5 mg. and the same is written on the label may actually contain less than the recommended dose. This type of cheating remains unknown for quite sometime to the customers.

Myth # Ten: Ethics in business is always relative.
This popular myth says that there is nothing which is either right or wrong. Ethics is a relative term.

A relevant question may be asked: relative to what? If it is relative to the attitude of the businessman, then practically anything that is unethical can be justified by him. Although, ethics is a relative term, it does not mean that there cannot be anything that is unethical. In fact, there are absolute notions of certain values. Thus, cheating in business is cheating; no relativity of ethics will justify it. There are certain virtues in business which are absolute, like, honesty, truth, transparency, sincerity, and so on

3.10 Summary

Business ethics is the application of the principles of ethics in the area of business and commerce. There are many interconnections between ethics and business ethics. Theories of ethics supply concepts and precepts, set our analytical guidelines and provide ethical models or frameworks for solving ethical dilemmas and other related problems. Business ethics has undergone a long period of historical evolution beginning from the medieval period through the 1970s when it was formally well-entrenched as an independent, full-fledged discipline. Reformation movement and the rise of Protestantism gave some valuable impetus to the growth of the subject. In the 1980s, about 500 courses were offered in colleges in advanced countries on the subject. Since globalization has made business international in character, every corner of the earth is eager to learn more about business ethics and international business practices.

Basically the subject of business ethics is normative in character. It is analytical, diagnostic, evaluative, prescriptive, and it sets a moral standard to be followed. Its scope is very wide including within its fold various types of organizations, institutions, customers, banks, corporate houses and private buyers and sellers of all varieties. In the contemporary world, business ethics is playing an inclusive role in the administration of communities, in explaining cross-country differences in business practices, in the management of environment and also in workplaces. The modern tendency is to follow the dictates of ethical pluralism superimposed on the principle of ethical relativity. This trend is gaining popularity in the context of globalization and internationalization.

Business ethics has been found to be necessary to guide and uphold the interests of stake holders in a business and has placed considerable importance on the performance of corporate social responsibility. Business ethics has many micro and macro ramifications and it strengthens the organizational culture and creates a solid foundation for a business. As a result, many stakeholders feel more secure, empowered and many types of conflicts are now avoidable in the business world.

In the long-run, business ethics has been found to be beneficial to a firm. It spreads goodwill, creates more confidence among the stakeholders and makes business more trustworthy. The knowledge of business ethics is gathered from various sources including the natural laws, empiricism, inner voice, religious scriptures, legal system, cultural practices and the principle of rationality. There are of course many myths about business ethics. Most of these myths consider business as irrelevant to ethics. It is wrongly argued that ethics is most suitable to philosophers, religious persons and not to managers. This view is incorrect. It is also equally an erroneous view that obedience to laws means obedience to ethics. Ethics is a moral discipline and is designed to reform our mental attitudes, whereas the law of the land is only to control the external individual behaviour. The two can of course go a long way and then they must change their respective trajectories

3.11 Key words

Profit-based morality approach- This approach recognizes the symbiotic relation between profits and moral activities (Hartley, 1993). Thus, when the profit of a firm is high, its morality gets a better priority.

Law-based morality approach- This approach believes that the laws of a country are mostly based on moral principles. Thus, if a firm or a person obeys the established laws of a country, then morality is also obeyed

3.12 Self Assessment Questions

1. Distinguish between ethics and business ethics.
2. Explain the need and basic objectives of business ethics.
3. Why should you study business ethics?
4. What are the main sources of the knowledge of business ethics?
5. Enumerate the scope of business ethics

3.13 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON – 4
VALUES AND ETHICS IN BUSINESS

Learning objectives

To Understand the ethics
To learn the Distinction between the Morality and Ethics
To study the stages of Moral Development
To describe the fundamental objectives of Ethics

Structure

4.1 Introduction

The logical starting point in understanding the concept of ethics is to demarcate science from philosophy–simply because ethics is a part and parcel of the latter. Philosophy is defined as the hypothetical interpretation of unknowns. Thus, science is an analytical description, but philosophy is a synthetic interpretation. Science gives us knowledge, philosophy gives us wisdom. However,it is imperative that we do not forget that every science begins with philosophy and ends with arts.

Thus, arts give us beauty, science gives us utility and philosophy teaches us the futility of many of our mundane day-to-day happenings.Further, philosophy includes the wisdom of the five fields namely, logic, aesthetics, politics and metaphysics. Logic is the study of the ideal method of argument, thought and analysis. Theareas in logic include observation, induction, deduction, inference, syllogism, and the rules of reasoning. Inductive logic is based on empirical observations from which certain inferences are drawn. Deductive logic makes use of the inferences from the inductive logic and deduces generalization from universal facts to a particular case. A syllogism consists of a trio of propositions in which the third (conclusion) follows from the relational truth of two other propositions. For instance, from the two given propositions—all men are mortal, and John is a man—we can logically deduce the conclusion that John is mortal.

Aesthetics is the study of the ideal form and conduct. It is sometimes regarded as the philosophy of art and beauty. Politics is the study of the ideal form of government and social institution and organization. Metaphysics is the study of ultimate reality, and the interrelation between mind and matter. The nature of being (ontology) and the process of perception and knowledge (epistemology)are the subject-matter of metaphysics. Metaphysics is a complex analysis of matter, motion, space and time elements.

What Is Ethics?

Before we get down to a formal definition of ethics, the readers should attempt reading the following passage:

The teacher's wife reprimanded her husband saying, "When a student argues that multinationalcorporations are good for a country, you said, 'you are right', and when another student explained hat they are bad for a country, you again said, 'you are right'. Surely they cannot both be right?"

To this question, the teacher answered, "My dear, you are quite right"! One of the characteristics that distinguish man from animals is the ability to judge right from wrong, and to separate good from bad. While human beings have that innate ability, animals do not possess that finer knowledge or judgment. Hence, ethics encompasses moral judgment that helps you differentiate good from bad, and right from wrong. Moreover, ethics is not concerned with good or bad in the material sense based on worldly standard. In the materialistic sense, right or wrong can be explained withreference to context, and in the ethical sense, there is something known as ethical relativism whichimplies that ethical behaviour is to be judged with reference to time, place and circumstances. Thus, whether MNCs are good or bad, as is the issue in the above discussion, is difficult to determine in isolation."

The meaning of ethical relativism and ethical absolutism will be elaborated further in subsequent discussion. Let us first defi ne ethics.

4.2 Definition of Ethics

The term ethics is derived from the Greek word, Ethikos meaning conduct, custom or habit. These meanings are quite similar to the meaning of a Latin word, "mores". Therefore, ethics is regarded as the science of morality or simply, ethics is moral philosophy which deals with moral conduct, judgment, habit, character, rules or principles. Habit needs to be distinguished from character.

Habit is the outward expression of character, which is the inner disposition or bent of mind.Human conduct which is the foundation of ethics, deals with right or wrong conduct with reference to the supreme ideals of human life. These ideals are deeply rooted in religion and handed down from generation to generation. These ideals comprise truth, honesty, non-injury to others, compassion, kindness, and peace, to name a few.

Listed below are a few definitions of ethics based on what has been discussed above:

Ethics is "the study of what is right or good human conduct".

Ethics is "the science of ideal involved in human life".

Ethics is "the science of moral judgment".

Ethics is "the science of morals in human conduct".

Ethics is "the study of the general nature of morals and of specifi c moral choices".

Branches of Ethics

Broadly speaking, there are five divisions of ethics. Applied ethics tells us how a moral outcome can be achieved. It is concerned with the practical application of the doctrines of morality. Normative ethics studies the determination of the correct moral standard or norm. Descriptive ethics deals with the moral values that people in a society try to abide by. Meta-ethics analyses the truth-value of ethics related propositions and practices.

Modern ethics concentrates on the deontological and consequential aspects of moral development and human behaviour.

4.3 Distinction between Morality and Ethics

Although, the two terms, ethics and morality are used as synonyms, it is necessary to know that both have different connotations. Morality involves individual character and disposition, but ethics studies how one should behave in a group or society. Ethics consists of a standard or code of behaviour of a group. Often, the various types of ethics like professional, social or corporate could be conflicting. For instance, a manager encounters a clash between personal morality and corporate ethics. The teachings of Jesus given in the Bible, for example, are morals, while the standard behaviour prescribed by human authorities is based on ethical considerations. The Josephon Institute of Ethics in America has recommended six core ethical values, such as, respect, responsibility, fairness, care, trustworthiness and citizenship. The basic distinctions between morality and ethics are given in Table 4.1.

Ethical considerations arise from right or wrong practices with respect to a profession. For instance, the fact that killing is immoral comes from the nomological axiom of the Bible's Ten Commandments. But professional ethics demands that the suspect needs to be defended—even if circumstantial evidence shows that he is a murderer. There may be a conflict between the personal morality of the lawyer and his professional ethics. In the same way, a person may consider abortion as immoral, but since it is legal in many countries, it is regarded as medically ethical

Table 4.1 Distinction between Morality and Ethics

	Morality	Ethics
1.	Prescribes right conduct for every one	Right code of behaviour for a group or profession
2.	Absolute and not changeable	Subject to change and relative in nature
3.	Individual disposition	Applied in the social system, groups or professions
4.	Nomological in origin	Arises out of specific recommendation of conduct in a particular profession
5.	Handed over from generation to generation; primordial in origin	It is developed and goes on evolving
6.	It is prescriptive	It is recommended to be followed in a profession

4.3.1 Moral and Meta-Moral (Non-Moral) Standards

Moral standards have certain rules and codes. But in a society, there are also some standards for non-moral things like etiquette, dress codes and rules of games, among the many. Moreover, both moral standards and non-moral or meta-moral standards are defined by certain authorities making them distinct. Table 4.2 gives clarity to the distinction.

Table 4.2 Difference between Moral and Meta-moral Standards

Moral Standard	Meta-moral Standard
It is based on some concepts of morality.	It does not have to be so.
It is primordial in origin. Not given by authorities, but steeped in religion and nomological axioms.	It is not so. It is formulated by an agency or person.
It is idealized and normative.	It is practical and pragmatic.
It is neutral, impartial and universal.	It is relative in character.
Needs some inclination to follow morality.	It is practice-oriented.
It is superior to meta-moral standard.	Since it is man-made, it is vulnerable and hence does not extract respect.
Has some obligation to observe/obey the standard.	No such obligation.
Coming from within and inward.	Coming from outward.
Is a type of individual disposition.	It is based on accepted rules.
Its non-observance hurts and injures your sentiment.	It does not give you any such sentiment.

Who Sets Moral Standards?

The moral standard that is adopted in ethics for the purpose of passing judgment is set by the following agents and institutions:

1. Tradition and convention, and inter-generational practice
2. Various types of institutions, such as, religion, social institutions and educational institutions.
3. Nomological axioms
4. Knowledge, wisdom and experience
5. Family and friends

4.3.2 Kohlberg and Gilligan's Analysis of Moral Development

The stage theory of moral development which psychologists believe in reflects that the idealized moral standard in a person needs to be cultivated and developed gradually at different stages of life.

Let us concentrate on two celebrated studies on moral development by Lawrence Kohlberg and Carol Gilligan.

In the 1950s, Kohlberg made an extensive longitudinal and cross-sectional study for a period of nearly 20 years to precisely analyse the pattern of moral development among the American males.

According to him, there are three broad levels of morality development. However, each level can

be further divided into two stages. Thus, there are six stages of morality development (see Table 4.3)

4.3 Kohlberg's stage Theory of Moral Development

Level One	Level Two	Level Three
Pre-conventional level	Conventional level	Post-conventional level
Punishment and obedience orientation	Interpersonal concordance orientation	Social contract/legalistic orientation
Institutional-relativist orientation	Law and order orientation	Universal ethical orientation

Kohlberg reasons that when there is a cognitive disequilibrium (CD), a person feels the need to pass on to another stage of moral development. The CD occurs when one does not understand the behaviour of another group in relation to his own group.

4.4 Stages of Moral Development

The first stage is defined by the study of consequence to you. In this stage, a person knows right or wrong on the basis of reward and punishment. When the mother punishes or rewards the child fortheir respective action, the child realises what is undesirable and what is right.

In the second stage, a rule is considered solid, if it brings some salutary effect or impact.

In the third stage, good moral behaviour involves living up to the expectations of those family members and friends for whom the person has respect.

The fourth stage is marked by respect and loyalty to community, society and the nation.

At the fifth stage, people become tolerant and liberal with the understanding that in a society there are different types of rules and regulations which may be mutually conflicting at times. But in spite of that people obey these contradictory community rules, traditions and regulations.

In the last stage of moral development, a person consolidates all his critical views on morality through his own judgment and evaluation, he accepts some principles as the universal ethical principles because these are consistent, logical and comprehensive. These principles are abstract in nature and deal with rights and duty, social welfare, justice and ideal moral behaviour. They are universal in the sense that they can be applied anywhere and at any time.

Kohlberg observes that people generally progress through the stages in the sequence mentioned earlier (from stage one to stage six). He points out that the later stages are superior to the earlier stages because they are based on maturity, reflective thinking and situational experience, wider perspective and impartial reasoning. However, some people stunt their own growth because of their inadequacy to reach the last stage and remain stuck to a particular stage throughout their lives.

Moral judgment to them depends on the characteristics of that particular stage.

4.5 Criticism Against Kohlberg's Stage Theory of Moral Development

A number of criticisms are levelled against Kohlberg's theory.

1. Moral development does not always follow a particular sequence as shown by Kohlberg; hence the sequential order, is not compelling.
2. Even if some sequence of progress can be observed in moral development, the stages themselves could overlap, or be skipped. Some later stages may come earlier. Thus, stage four (law and order orientation) may come much earlier when a person understands the importanceof law and order. This knowledge is imbibed from family and friends.
3. Kohlberg has only discussed the male pattern of morality development and neglected the gender perspective and therefore the result is one-sided. This point is elaborated by Carol Gilligan.

4.6 Carol Gilligan's Theory of Moral Development

While approving the stages of moral development as emphasized by Kohlberg, Carol Gilligan emphasized the fact that the female pattern of moral development is of a special type. Moral development among women, as Gilligan observes, depends on and is conditioned by a well-knit system of relationships among family, friends and peer-groups. The fundamental driving force for moral development in Gilligan's theory is care and compassion. Gilligan describes three precise stages of moral development among women.

At the pre-conventional (first) stage, women care for themselves. In the second stage or what is known as the conventional stage, women internalize the prevailing moral norms or standards. Along with these norms, they learn to make sacrifices for their near and dear ones which would sometimes involve neglecting themselves. In the more mature third stage (post-conventional stage), women generally maintain a balance they care for themselves and others. In this stage, women become cautious and question the prevailing standard of morality which was initially accepted by them inthe second stage. According to Gilligan, the male pattern of moral development is not suitable to explain the female pattern of moral development. The male pattern of moral development deals with issues that are more impartial, impersonal and somewhat abstract. Gilligan's female pattern is distinctly different.

The truth is that the male pattern also sometimes depends on care and compassion while developing the concept or standard of morality. In the same way, the female pattern, may also take into consideration, factors like impartiality and impersonal motivation. Thus, a more comprehensivetheory of moral development will include both Kohlberg's male pattern development and Gilligan's female pattern of development of morality.

4.7 Similarities between Kohlberg and Gilligan's Studies

1. Both these studies present cognitive development theories.
2. Both the studies agree that there are three stages of moral development:

■ Self-oriented level

■ Group-oriented level

■ Reflective level in which people examine their own points of view.

3. Both these studies prove that moral development takes place through stages.
4. Both these studies come to the conclusion that moral development at the mature stage is better than that at the pre-conventional stage. This is so because at the mature stage, people evolve their own view based on sound judgment, experience and interaction with society.

5. Both the studies seem to suggest that the moral standard of a person is a relative concept and gradually takes shape in the process of evolution over time

Table 4.4 Differences between Kohlberg's and Gilligian's Approach

Kohlberg's Theory	Gilligan's Theory
Right-based analysis.	Care-based analysis.
Believes in six distinct stages of development.	Take into account three distinct levels.
Considers only the male pattern development.	Considers only the female pattern of development.
Personal relationship with others is not a decisive factor in moral development of an individual.	Personal relationship is the basis of moral development.
Love and care do not decide the trajectory of moral growth.	For women, everything is based on love and care.

Undoubtedly, the studies by Kohlberg and Gilligan are important and point out the significance of evolution of our thought process in the development of morality and ethics. Even if one does not agree with these studies, there is no denying that moral development follows a route. Ethical Syllogism (Reasoning) In ethical reasoning, the moral standard of any country or society can be judged with reference to the set of universal moral standards. So it is necessary to gauge the universal moral standard in a particular situation. This is regarded as the major universal premise of reasoning. In ethical or moral reasoning, there are two interrelated ethical propositions, and on the basis of this relationship, one can arrive at the third proposition. The third proposition is called the inference or conclusion. The whole logical process of drawing conclusions from the two given propositions is called syllogism in logic. Let us give an example: A country is unjust if there is gender discrimination. Saudi Arabia is a country where there is gender discrimination. Therefore, Saudi Arabia is an unjust country. In this example, the first proposition can be regarded as ethically correct. Any form of discrimination is morally unjust in the sense that it violates human rights and goes against the natural principle of equality. The second proposition is to be based on strict empirical truth. If the second proposition is factually incorrect, we will not have correct ethical reasoning. In a logical syllogism, the form of the argument remains critical. Given the form, one can use any related ethical proposition to arrive at the conclusion. In this process of ethical reasoning, the universal first proposition must be based on some accepted moral/immoral standard. The basic factual truth in relation to the first proposition for a particular case must be based on accepted moral standard, and then it will be possible to draw the valid conclusion. It should be noted that the conclusion drawn in the ethical syllogism is formally valid. It is also empirically valid because the second proposition is based on empirical truth as in the above example. For the validity of moral reasoning, the terms used must have the same connotation. For instance, the expression "gender discrimination" must have the same meaning in both the first and the second proposition. It is in this context one can speak about consistency. The conceptual consistency of the expression "gender discrimination" is the primary prerequisite for the validity of the whole reasoning process.

Ethical Relativism and Ethical Absolutism

It is an empirical fact that all ethical norms and practices are not equally valid and applicable to all societies. Some ethical norms or practices are acceptable in some countries but not acceptable in others. For example, caste system or untouchability was accepted in India, but not in other countries. Matrimony between homosexuals is legally acceptable in the United Kingdom; based on marital ethics; but is considered unethical and immoral in other countries. Thus, ethical standards differ from country to country or from place to place, and hence the birth of ethical relativism. Ethical standards are relative to a situation, place, time and circumstances.

Criticism Against Ethical Relativism (ER)

1. If ER is correct, then the same practices cannot be criticized in other parts of the world. For instance, if drinking is not prohibited in the UK, it should not be prohibited in India. Such a reasoning is not tenable because circumstances may be different.
2. It seems that to the proponents of ER, all local moral standards are equally acceptable without exceptions. Morality in that case becomes a flexible concept without any rational basis.
3. ER believes that the only criteria for judging right and wrong are the local standards and practices. Such a standard of judgment is too constricted.
4. ER tends to believe that the moral standards of a particular society are the fundamental basis of judging it or for subsequent policy actions. This view is incorrect.
5. If injustice prevails in a particular country, it should not be the yardstick for others. For instance, the argument that the Indian caste system is good because it is steeped in tradition and hence should be emulated elsewhere, is objectionable.
6. ER does not lay emphasis on the universal moral standard. In fact, some moral standards are unchanged, and live on.

Ethical Absolutism (EA)

EA relies on the fact that some ethical standards are universal, permanent and absolute and are applicable to all countries and places. They do not change over time. For instance, the maxims like “Don’t steal”, “Don’t lie” or “Respect your parents” have universal appeal and applicability. Thisis ethical absolutism.

4.8 Nature (Ontology) and Scope of Ethics

Ethics is a normative science. It sets the norm by explaining what ought to be the ideal human conduct and character. Hence, it is not a positive science. It studies what is right in human action in the pursuit of the supreme ideal good but it does not lay down the rules to achieve that state of perfection.

According to ethics, the morality of action depends on the inner motive and attitude and not necessarily the overt action, as Immanuel Kant maintains. When you cannot help a poor person because you lack the means to, your attitude still is moral and ethical.

One of the objectives of ethics is to observe and classify moral behaviour and justify them with reference to moral standard. Ethics is the science of ideals. It considers man as a selfconscious being who is conscious of his relationship with family, society and environment.

Thus, ethics is very close to sociology and of course philosophy.

Ethics is sometimes defined as the science of character. However, it does not study the historical evolution or origin of conduct and character. But it does investigate the nature of moral ideals. When certain human actions are in conformity with the moral ideals, the actions are regarded as right. It is the duty of a person to pursue what is good and appropriate. Since moral judgments accompany moral sentiments, ethics is also concerned with moral sentiments. Adam Smith’s bookThe Theory Moral Sentiments analyses the nature, characteristics and implications of moral sentiments. These sentiments include feeling of approval, disapproval, guilt, right and wrong.

In many cases, morality is a product of social milieu. Ethics is critical of popular morality. If an action is very popular and is adopted by many, it does not necessarily mean that the action is good or moral. If the majority of people in a society indulge in drinking, it does not imply that drinking is a morally ideal habit. The purpose of ethics is to throw light on the highest good of human beings and society and correct the existing inconsistencies.

The nature and scope of ethics can be summarized as follows:

1. Ethics deals with human behaviour that is related to character, conduct, moral issues and right or wrong.
2. The human conduct that ethics studies are voluntary and not forced or imposed.
3. Ethics is a science in the sense that it gives you systematic knowledge about moral conduct,behaviour and moral standard. It is a type of social science.
4. Ethics sets the ideal moral standard for social and human welfare.
5. The moral standard is set with reference to religious tradition and custom. These standards are based on nomological axioms which have been prevalent in human society from time immemorial.
6. Having understood the ontology and scope of ethics, it is now imperative to appreciate the fundamental objectives of ethics.

4.9 Fundamental Objectives of Ethics

1. Ethics is concerned with human behavior to understand whether such a behaviour is in conformity with the standard ethical norm or not.
2. It sets an ideal standard of moral conduct of behaviour.
3. It is diagnostic in nature it passes judgments on human behaviour.
4. It is also prescriptive it recommends ideal ethical behaviour that can be followed.
5. It is analytical it analyses overt human behaviour and conduct and passes judgment.

4.10 Four Critical Principles of Ethics

4.10.1 Ego-based Principle (Ethical or Psychological Egoism)

Human actions are essentially ego-centric and selfish. Even when a man is making a donation to an organization, his intention is to gain popularity which will feed his ego. However, as Adam Smith observed, some consequences of human selfishness may bring social welfare by satisfying human needs. However, there is a difference between selfishness and self-centeredness. While the latter is aimed at furthering personal ambition, it does not harm the interest of others. Selfishness, on the other hand, is the achievement of gains at the cost of others. Thus, if a cake is bought for the members of a family consisting of three individuals, and half of it is eaten by a person before distributing it to others, the person can be called selfish, as he has reduced the share of others. But if a person buys a cake and does not share it with his friends, he is self-centered.

4.10.2 Rule-based Principle

This principle believes that ethical action should be based on certain given rules of ethics. In such a case, the consequences are not important, but the open action is crucial. For instance, the dictum: “always speak the truth” is important, whether its consequences are good or bad.

4.10.13 End-based Principle

This ethical principle is based on the notion of the consequence of actions. Thus, an action is undertaken only when it produces some positive results or utility. This is often termed as consequentialism or utilitarianism.

4.10.13 End-based Principle

It is revered as the golden rule in ethics. In this rule, the action of an agent is based on care and compassion. Thus, if an accident victim is lying on the road, your involvement may bring less utility as it will involve time and money to give him the necessary medical care, and the consequencesmay be dealing with a police case. So, utility and consequence based ethics, will not advise one to take care of the victim. The only relevant ethics in this case is care and compassion. The care-based ethics overrules all other principles and it is the essence of all religious teachings.

It should be noted that the notion of justice remains the basic guiding principle in all the cases.

The above four ethical principles have the following implications:

Although, the four principles of ethics are distinctly different, they have important implications for practitioners.

1. These principles suggest that in the same situation, different decisions can be arrived at, and depending on the merit, a particular principle can be applied.
2. Depending on the inclination of the user, any one of the principles can be translated into practice. It is the context that remains important. It is not necessary that one has to follow the same principle over and over again.
3. There are four ways of looking at the world through the lens of ethics. Each of the principles is unique in its own way. It cannot be said that one principle is better than the other they are all equally appealing. However, to many, the caring principle is special.

4.11 Ethical Pluralism

The four basic principles of ethics that we have discussed above, namely, psychological egoism or self-interest, utilitarianism (or consequentialism), deonticism and care-based principles, focuses on different types of attitudes and information. If a person at all times and under all circumstances applies only one principle, he fails to understand the possible relevance of the other three, and important information may be relegated to the background. Secondly, by rejecting the other three principles, one might have given up the opportunity of applying the most apt principle in a particular context.

Ethical pluralism makes an attempt to integrate all the ethical theories or principles while considering a particular situation. In that case, conflicts can be resolved with the application of the correct ethical principle.

Both Adam Smith and Aristotle have used ethical pluralism in their studies. A study of Smith'simportant publications namely The Theory of Moral Sentiments, The Wealth of Nations and his lectures on jurisprudence show that he has laid importance to utility, value, self-interest, and relationships with family and friends and justice (Werhane, 1991). Aristotle has also observed that the fundamental function of ethics is to help human beings lead a good life, and that can be achieved by integrating the basic ethical principles. According to him, we should downplay the underlying conflicts between principles. The four principles of ethics, namely, justice, self-interest, group welfare and care and compassion constitute the elements of a meaningful life. Thus, ethical pluralism remains the best normative approach in practice.

4.12 Cognitivism and Non-Cognitivism

One branch of ethical philosophy claims that it is possible to know right from wrong or good from bad in a very clear and objective manner. This is called cognitivism. However, some philosophers maintain that it is not objectively possible to know what is good and what is bad. This is known as non-cognitivism

Under cognitivism, one can include various types of ethical theories. Some of these theories are:

- Utilitarianism
- Consequentialism and non-consequentialism
- Religion-based morality

Some non-cognitive theories are:

- Duty based theory of Immanuel Kant (Deontological Theory)
- Natural law-based theory of rights

All these theories will be explained later in this book

The chapter has encompassed and discussed at length the meaning, nature, purpose, and scope of ethics. In a nutshell, ethics is considered to be the science of morality as it deals with moral conduct.

The different branches of ethics are normative, applied, descriptive and meta-ethics. It should, however, be noted that ethics is different from morality. Generally, morality is individual specific but ethics is the right code of behaviour for a group or profession. But in ordinary parlance, both morality and ethics are used synonymously. It is necessary to distinguish between moral standard.

Moral standard is derived for the purpose of moral development or behaviour but non-moral standard is meant for the correct social behaviour or norms, like dress code, rules of games, and so on. There are many authorities who set the moral standard.

The moral development takes time to become a habit among human beings. In this context,

Kohlberg has discussed six fundamental stages of moral development. While Gilligan approves of the six stages of development of Kohlberg, she points out that Kohlberg has ignored the femalepattern of moral development. There are some similarities and some fundamental differences between Kohlberg's and Gilligan's approaches to the whole analysis of moral development.

4.13 Summary

While discussing ethics, it needs to be borne in mind that ethical norms and practices are only relative. However, it cannot be denied that ethical principles are absolute in character in that sense that they are valid in all situations and circumstances. Ethics is a normative science that helps build your character. Ethics is based on four basic pillars or principles: rule-based, end-based, ego-based and care-based principles. Ethical pluralism shows that it is better to follow all the important notions of ethics in explaining situations rather than follow only one of the principles. Cognitivism observes that it is possible to objectively identify right and wrong. However, some ethical philosophers think that it is impossible to do so. This type of ethical philosophy is called ethical non-cognitivism

4.14 Key words

Aesthetics -Aesthetics is the study of the ideal form and conduct. It is sometimes regarded as the philosophy of art and beauty. Politics is the study of the ideal form of government and social institution and organization.

Ethics- The term ethics is derived from the Greek word, Ethikos meaning conduct, custom or habit. These meanings are quite similar to the meaning of a Latin word, "mores". Therefore, ethics is regarded as the science of morality or simply, ethics is moral philosophy which deals with moral conduct, judgment, habit, character, rules or principles. Habit needs to be distinguished from character.

Ethical Absolutism (EA)- EA relies on the fact that some ethical standards are universal, permanent and absolute and are applicable to all countries and places. They do not change over time

4.15 Self Assessment Questions

1. Distinguish between ethics and morality.
2. Enumerate the major characteristics of moral standards.
3. Explain the basic nature of the science of ethics.
4. Write a note on ethical relativism and ethical positivism.

4.16 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON-5
CORPORATE GOVERNANCE DEFINITION, HISTORICAL PERSPECTIVES OF CORPORATE GOVERNANCE

Objectives of the lesson

- ✓ To study what is Corporate Governance
- ✓ To Define and understand corporate governance
- ✓ To explore Historical Perspective of Corporate
- ✓ To explore Issues inCorporate Governance

Structure

5.1 Introduction

Corporate governance refers to the system of rules, practices, processes, and structures by which a company is directed and controlled. It encompasses the relationships among a company's management, its board of directors, its shareholders, and other stakeholders. Corporate governance is a critical aspect of the business world, as it helps ensure that a company operates ethically, transparently, and in the best interests of all its stakeholders

- Corporate governance is the structure of rules, practices, and processes used to direct and manage a company.
- A company's board of directors is the primary force influencing corporate governance.
- Bad corporate governance can cast doubt on a company's operations and its ultimate profitability.
- Corporate governance covers the areas of environmental awareness, ethical behavior, corporate strategy, compensation, and risk management.
- The basic principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management.

5.2 Concept of Governance

With the beginning of civilization, there arose a need for smooth administration and division of responsibilities. Since the population started to increase, people grew concerned about their welfare and able ruling. This led to the rise of an organizational structure which dealt with the nuances of firm ruling and governance. According to the American Heritage

Dictionary governance is defined as “the act, process or power of governing government”; the Oxford English Dictionary defined Governance as “the act or manner of governing, of exercising control or authority over the actions of subjects; a system of regulations”.

The social performance of a large corporation comprises three dimensions, corporate philanthropy, corporate responsibility, and corporate policy. Corporate philanthropy includes charitable efforts undertaken by a firm that are not directly related to its normal activities. Corporate responsibility refers to the way in which corporation behaves while it is pursuing its goal of profit making. The final categories, cooperate policy, encompasses the position of a firm on issue of public policy that affect both business and society.

5.3 Importance of corporate governance

Corporate governance is critical for the proper functioning of an organization. Demonstrating good corporate governance is important for maintaining a company's reputation.

Corporate governance is based on a set of rules, bylaws, policies and procedures to ensure company accountability. When done correctly, it establishes a framework for attaining a company's objectives in all spheres of management. It also recognizes the importance of shareholders. Shareholders elect the company's members of the board, fund company operations and have a direct say in the operation of the business.

Good governance ensures a company's integrity, overall direction, risk management and success planning. This, in turn, helps companies stay financially viable and build strong community, shareholder and investor relations and trust. Demonstrating good corporate governance is often considered as important as profitability for businesses.

5.4 Definition of Corporate Governance

"Corporate governance is the system by which companies are directed and controlled."

---The Cadbury Report (Sir Adrian Cadbury)

"Corporate governance involves a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."--- **The Organisation for** Economic Co-operation and Development (OECD)

"Corporate governance is about promoting corporate fairness, transparency, and accountability."--- **The World Bank**

"Corporate governance is the system by which organizations are directed, controlled, and held to account. It encompasses authority, accountability, stewardship, leadership, direction, and control exercised in the organization."--- **Sir Michael Cullen (Author of the Cullen Report on Corporate Governance in New Zealand)**:

5.5 Genesis, Meaning and Evolution of Corporate Governance

Corporate Governance is a legal system by which companies, stock exchange and officials of corporate sector are regulated, governed and managed. Success of Corporate Governance is based on complete transparency in companies matters. Corporate Governance has given the direction to market oriented economy. Since, 1970 the world economy has been facing many problems in the form of corporate frauds and corporate scams. Corporate Policies models of group politics differ from pluralism in that attempt to trace the implications of the closer links that have developed in industrial societies between group and state. Corporation is a social theory that emphasizes the privileged position that certain groups enjoy in relation to government, enabling them to influence the formulation and implementation of public policy. Indian economic model is based on capitalistic model. In this model, Corporate Governance is very essential for balanced economy.

5.5 Historical perspectives of Corporate Governance

The historical perspective of corporations and corporate governance is a long and complex one, dating back centuries. Here is an overview of the historical evolution of corporations:

5.6.1 Early Forms of Corporations (Ancient Times to Middle Ages):
The concept of corporate governance had deep historical roots in ancient India. Corporate governance was important concept in Indian ancient commercial world. Economy was base of all civilized society. No society can exist without economic activities. But there must be some fairness, justice in economic activities. The concept of fairness and justice is known as corporate governance. But in ancient India Corporate governance was known by different names. In ancient India Dharma was main regulator. The concept of a corporation, as an entity separate from its owners, has ancient origins. In ancient Rome and Greece, there were examples of state-chartered corporations for public projects, such as building roads and bridges.

During the Middle Ages, some European towns and cities allowed the creation of corporations for trade and commerce, often with specific privileges and rights granted by the ruling authorities.

5.6.2 Corporate Governance during Vedic Era 1500-322 BC
The spirit of cooperation is a social instinct in men. From the most primitive period of which we possess any record, it has manifest in human society in some form or other. Nevertheless it is brought into prominent activity, and lends itself to some conscious organization, according to the temper of man and the circumstances in which he finds himself. The nature of these circumstances dictates the form of such organization, but the character of development depends to a great degree upon the peculiar genius of the society in which it is fostered. Thus it is that we find in almost all ages and countries cooperative organization, however, rudimentary in different fields of human activity-social, political, religious and economic. The development of this organization has however varied in different parts of the world. An important aspect of economic life during the Gupta period is the vigorous activities of the numerous guilds and corporations. The guild life led to much economic progress in ancient India. For the individual craftsman could thus find scope to develop their skill and ingenuity, while the guild laws and regulations safeguard their interest against internal or external danger.

5.6.3The East India Company (1600):
The East India Company, founded in 1600 in England, is often cited as one of the earliest examples of a modern multinational corporation. It had a significant impact on global trade and colonization during the British Empire's expansion.

5.6.4 The Rise of Joint-Stock Companies (17th Century):
Joint-stock companies, which allowed investors to purchase shares in a company, emerged in the 17th century. This development allowed for the pooling of capital for large-scale ventures, such as trading expeditions and colonial enterprises.

5.6.5 The Industrial Revolution (18th and 19th Centuries):
The Industrial Revolution led to a proliferation of corporations, especially in the manufacturing and transportation sectors. Railroads, factories, and other enterprises were often organized as corporations to raise the necessary capital and manage operations efficiently.

5.6.6 Regulation and Corporate Governance (19th Century):
As corporations grew in size and influence, concerns arose about their power and accountability. This led to the development of early corporate governance principles and regulations. For example, the United Kingdom's Joint Stock Companies Act of 1844 introduced regulations for companies' registration and governance.

5.6.7 The Evolution of Limited Liability (19th Century):
Limited liability protection for shareholders, which shielded them from personal liability for corporate debts, became a significant development in the 19th century. This change encouraged investment in corporations by reducing the risks for shareholders.

5.6.8 Corporate Governance in the 20th Century:
The 20th century saw the refinement and expansion of corporate governance practices, particularly in the United States and Europe. The creation of independent boards of directors, audit committees, and regulatory bodies aimed to improve transparency and accountability.

5.6.9 Globalization and Modern Corporate Governance (Late 20th Century to Present):
The latter half of the 20th century witnessed increased globalization and the rise of multinational corporations. This global expansion brought about new challenges in corporate governance, including issues related to corporate social responsibility, sustainability, and stakeholder engagement.

5.6.10 Corporate Scandals and Regulatory Reforms (Early 21st Century):
The early 2000s saw major corporate scandals such as Enron and WorldCom, which led to regulatory reforms like the Sarbanes-Oxley Act in the United States. These reforms aimed to enhance corporate governance standards and restore investor confidence.

5.6.11 Ongoing Evolution (21st Century):
Corporate governance continues to evolve in response to changing societal expectations, technological advancements, and global economic dynamics. ESG (Environmental, Social, and Governance) considerations have gained prominence, and there is a growing emphasis on sustainability and responsible business practices.

5.6.12 Corporate Governance provisions in the Companies Act, 2013

The enactment of the companies Act 2013 was major development in corporate governance in 2013. The new Act replaces the Companies Act, 1956 and aims to improve corporate governance standards simplify regulations and enhance the interests of minority shareholders.

- Board of Directors (Clause 166)
- Independent Director (Clause 149)
- Related Party Transactions (RPT) (Clause 188)
- Corporate Social Responsibility (CSR) (Clause 135)
- Auditors (Clause 139)
- Disclosure and Reporting (Clause 92)
- Class action suits (Clause 245)

5.7 Conclusion

The concept of corporate governance once there is a brand image, there is greater loyalty, once there is greater loyalty, there is greater commitment to the employees, and when there is a commitment to employees, the employees will become more creative. In the current competitive environment, creativity is vital to get a competitive edge. Corporate Governance in the Public Sector cannot be avoided and for this reason it must be embraced. But Corporate Governance should be embraced because it has much to offer to the Public Sector. Good Corporate Governance, Good Government and Good Business go hand in hand.

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1. "Corporate Governance and Ethics: An Aristotelian Perspective" Author: Alejo José G. Sison Publisher: Edward Elgar Publishing Year: 2018
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LESSON- 6
SIGNIFICANCE OF CORPORATE GOVERNANCE IN DEVELOPING COUNTRIES, ISSUES IN CORPORATE GOVERNANCE

Objectives of the lesson

- ✓ To know **Corporate Governance framework in India**
- ✓ To Analyze Significance of Corporate Governance in Developing Countries
- ✓ To explore Issues inCorporate Governance –
- ✓ To analyze Corporate Governance practices in India

Structure

6.1 Introduction

Corporate Governance is highly relevant today in India. It is a set of rules, regulations, and practices that a company follows to ensure that it is managed in the best interests of its shareholders and other stakeholders. Corporate Governance ensures that the company's activities are conducted in an ethical and responsible manner and that the rights, interests, and expectations of shareholders and other stakeholders are respected. Corporate Governance also helps to ensure transparency in the company's operations and to promote long-term sustainable growth. In India, the Companies Act 2013 and the Securities and Exchange Board of India (SEBI) have put in place various regulations to ensure companies follow good Corporate Governance practices. These regulations are important to ensure that investors' interests are protected and that companies are run in an efficient and ethical manner.

6.2 What is the Corporate Governance framework in India

The Corporate Governance framework in India is based on the recommendations of the Kumar Mangalam Birla Committee, which was constituted by the Ministry of Corporate Affairs in 1999. The committee's main objective was to recommend areas for improvement in the governance of companies in India. The committee recommended the adoption of a set of principles and practices of corporate governance on a "comply or explain" basis.

6.3 The principles and practices of corporate governance recommended by the committee include:

6.3.1 Board of Directors:

The board should consist of non-executive, independent, and executive directors who are responsible for monitoring the company's performance.

6.3.2. Corporate Social Responsibility:

Companies should adopt a corporate social responsibility policy and ensure its implementation **in the organisation.**

6.3.3. Disclosure and Transparency:

Companies should ensure that their financial statements, disclosure of material events, and other information are available to the public in a timely manner.

6.3.4. Audit Committee:

Companies should establish an audit committee to oversee the financial reporting process.

6.3.5. Shareholders' Rights:

Companies should ensure that the rights of shareholders are protected and that they have access to appropriate information.

6.3.6. Remuneration:

Companies should ensure that the remuneration to senior management and employees is appropriate and fair, taking into account each individual's contribution and overall performance.

6.4 Significance of Corporate Governance

Corporate governance plays a vital role in the business world and has significant implications for a wide range of stakeholders, including shareholders, employees, customers, creditors, and the broader society. Here are some of the key significances of corporate governance:

6.4.1 Protection of Shareholder Interests:

Corporate governance helps protect the interests of shareholders, who are the owners of the company. It ensures that management acts in the shareholders' best interests and provides mechanisms for shareholders to hold management accountable.

6.4.2 Efficient Allocation of Capital:

Good corporate governance promotes the efficient allocation of capital by ensuring that investment decisions are made based on sound economic and financial principles rather than personal interests or favoritism.

6.4.3 Enhanced Transparency and Accountability:

It enhances transparency by requiring companies to provide timely and accurate financial and non-financial information. This transparency builds trust among investors and other stakeholders and allows them to make informed decisions.

6.4.4 Risk Management:

Corporate governance practices include risk management mechanisms, which are essential for identifying, assessing, and mitigating risks that could affect a company's financial health and reputation.

6.4.5 Ethical Conduct:

It promotes ethical conduct within an organization by setting expectations for honesty, integrity, and responsible behaviour among employees and management.

6.4.6 Long-Term Sustainability:

Effective corporate governance is associated with long-term sustainability. Companies that adhere to good governance practices are more likely to weather crises, adapt to changing market conditions, and achieve long-term success.

6.4.7 Attracting Investment:

Investors, both domestic and foreign, are more likely to invest in companies with strong corporate governance, as it reduces the perceived risk and increases confidence in the management's ability to generate returns.

6.4.8 Stakeholder Engagement:

It encourages companies to engage with a broader range of stakeholders, including employees, customers, suppliers, and the local community. Considering the interests of these stakeholders is increasingly important in today's business environment.

6.4.9 Legal and Regulatory Compliance:

Corporate governance ensures that companies comply with applicable laws, regulations, and standards. Failure to do so can result in legal and financial penalties.

6.4.10 Prevention of Corporate Scandals:
Strong corporate governance can help prevent corporate scandals, fraud, and unethical behavior by establishing checks and balances within the organization and fostering a culture of integrity.

6.4.11 Global Reputation:
Companies with good corporate governance practices often enjoy a better global reputation, which can facilitate international business relationships and partnerships.

6.4.12 Innovation and Adaptation:
Effective governance encourages innovation and the ability to adapt to changing market conditions. It fosters a culture of continuous improvement and risk-taking within the boundaries of ethical and legal standards.

6.4.13 Responsible Business Practices:
Corporate governance encourages responsible business practices, including environmental and social responsibility. Companies are increasingly expected to address environmental, social, and governance (ESG) issues as part of their governance framework.

6.5 Issues in Corporate Governance

Corporate governance is a complex field, and there are several key issues and challenges that companies, regulators, and stakeholders grapple with. These issues can vary by region, industry, and company size, but some of the common concerns in corporate governance include:

6.5.1 Board Independence and Effectiveness

Ensuring that boards of directors are independent from management and can effectively oversee company operations is a persistent challenge. The composition of the board, including the balance of independent directors, is a critical issue

6.5.2 Executive Compensation

Concerns about excessive executive pay packages, often not tied to performance, have been a longstanding issue. Aligning executive compensation with long-term shareholder interests remains a challenge

6.5.3 Shareholder Rights:
Protecting shareholder rights and ensuring they have a meaningful voice in corporate decision-making can be problematic, particularly in companies with concentrated ownership or dual-class share structures

6.5.4 Stakeholder Engagement

Balancing the interests of various stakeholders, including employees, customers, suppliers, and the community, is increasingly important. Companies are under pressure to engage more proactively with these stakeholders.

6.5.5 Risk Management:
Identifying, assessing, and managing risks, including environmental, social, and governance (ESG) risks, is a growing concern in corporate governance. Companies must develop robust risk management strategies.

6.5.6 Ethical Conduct and Corporate Culture

Maintaining an ethical corporate culture and ensuring that employees and management adhere to high ethical standards can be challenging. Ethical lapses and corporate scandals remain a persistent issue.

6.5.7 Environmental and Social Responsibility:

Addressing ESG issues, such as climate change, diversity and inclusion, and social responsibility, is becoming increasingly important for companies. Investors and regulators are placing greater emphasis on these factors.

6.5.8 Cyber security and Data Privacy:

With the growing importance of technology, cybersecurity and data privacy have become critical issues in corporate governance. Companies must protect sensitive data and mitigate cybersecurity risks.

6.5.9 Regulatory Compliance:

Adhering to a complex web of laws and regulations at the local, national, and international levels is a significant challenge for companies. Regulatory compliance is essential but can be burdensome.

6.5.10 Globalization and Multinational Operations

Companies with international operations must navigate diverse legal and cultural environments. Harmonizing governance practices across different jurisdictions while respecting local norms can be complex.

6.5.11 Shareholder Activism:

Activist shareholders are increasingly seeking to influence company decisions and governance practices. Balancing their interests with the long-term interests of the company can be a delicate task.

6.5.12 Economic and Market Volatility:

Economic uncertainties, market volatility, and external shocks, such as the COVID-19 pandemic, have highlighted the need for robust risk management and crisis response in corporate governance.

6.5.13 Technology and Digital Transformation:

Embracing digital transformation and technology while managing the associated risks is a significant challenge. Companies must adapt to technological changes rapidly.

6.5.14 Long-Term vs. Short-Term Focus:

Striking the right balance between short-term financial results and long-term sustainability is an ongoing issue. Short-termism can lead to suboptimal decision-making.

6.5.15 Supply Chain and Sustainability:

Ensuring sustainability and ethical practices throughout the supply chain is a growing concern, particularly for industries with complex global supply networks.

6.6 Corporate Governance practices in India.

Corporate Governance practices in India is based on the principles of fairness, transparency and accountability. It is intended to promote efficient and effective management of the company. The key features of Corporate Governance practices in India are:

6.6.1. Board of Directors:

The board of directors is the company's highest decision-making body and is responsible for ensuring that the company is managed effectively and efficiently. The board is responsible for approving strategies, setting performance objectives, reviewing and approving financial statements, providing guidance to the management and monitoring the company's **performance.**

6.6.2. Shareholder Rights:

Shareholders are the company owners and have a right to participate in decision-making. Companies must ensure that the shareholders' rights are protected and respected. The Companies Act 2013 provides the framework for the rights of shareholders by mandating the annual general meeting, voting rights and special resolutions.

6.6.3. Disclosure and Transparency:

Companies must ensure that they disclose all relevant information in a timely manner. They must also ensure that they comply with the rules and regulations regarding the disclosure of information. The Companies Act 2013 provides the framework for disclosure and transparency.

6.6.4. Audit and Risk Management:

Companies should have an effective audit and risk management system to ensure that they comply with applicable laws and regulations. This system should include regular internal and external audits of the company's financial records, processes, and procedures, as well as robust internal controls for risk management. Additionally, companies should have a formal policy for reporting financial and compliance issues and a procedure for responding to any issues.

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LESSON- 7
MAJOR THRUST AREAS OF CORPORATE GOVERNANCE

Objectives of the lesson

- ✓ To study director's role in corporate governance
- ✓ To know major thrust areas of corporate governance
- ✓ To explore know the guidelines on corporate governance

7.1 Introduction
Corporate directors are positioned to lead the way in implementing measures that contribute to economic growth and sustainability. This article, published by the National Association of Corporate, discusses how strong corporate governance is necessary for directors to be effective in these efforts.

There are four areas of corporate governance the NACD (National Association of Corporate,discusses) has identified as being the most important and of immediate concern: risk oversight, corporate strategy, executive compensation, and transparency.

7.2 Risk Oversight
There is an increased need for boards to exercise risk oversight as insufficient governance that did not sufficiently safeguard against excessive risk taking contributed to the current economic crisis. The NACD provides recommendations to help design governance structures and practices to support the board in determining its own priorities, agenda, and

informational needs, and to assist the board in focusing on strategy and risk. One recommendation is that a risk program should help mitigate the risks in implementing a strategy and boards can contribute to this through a strong "tone at the top". Boards should be active in assessing an organizations' risk appetite, considering a broad view of risk from the perspective of all stakeholders. Boards should also recognize that strategic goals may need to change with changes in risk exposure and vice versa. Boards should help management identify potential risks and continually monitor risks, and the quality, dependability, and timeliness of information is essential to boards being able to perform these functions. Boards are also responsible for ensuring sound crisis response planning has occurred, which can decrease mistakes made in crisis situations.

In moving forward, there are future challenges boards will face in improving risk oversight. Risk oversight responsibilities currently fall to the audit committee in the majority of companies, with only 25% of boards using their full boards for risk oversight and only 6% using a risk committee. Risk oversight responsibilities should be assigned to the full board as well as committees apart from the already heavily burdened audit committee. A large majority of directors indicated that management provides the information needed to effectively execute the board's risk governance role. However, risk identification procedures need to be improved because directors identified two top challenges in providing risk oversight: management's capacity to define and explain the organization's risk management structure and process, and the organization's capacity to identify and assess risks. Further improvement in risk identification can be gained by directors understanding smaller high-risk operations within the organization that could impact the whole company. Directors should evaluate risk models used and learn and understand their limitations to properly apply judgment regarding their output. Overall information flow also needs to be improved because relevant, accurate, timely information is critical to risk oversight and a culture of open and effective information flow can promote these qualities. Boards need to manage the quantity and quality of information received, the risk of asymmetrical information coming from the perspective of management, and should consider if there is sufficient skepticism expressed during risk conversations.

7.3 Corporate Strategy

A core responsibility of the board is to engage with management in the development of an effective corporate strategy. The NACD recommends boards become more strategically engaged by jointly establishing with management the process the company will use to develop its strategy, providing ongoing evaluation of the strategy by monitoring implementation and encouraging changes as needed, and by establishing executive compensation objectives and metrics that tie to long-term strategic goals. Boards can improve their ability to balance strategy and risk with better strategic information, earlier and greater collaboration with management in creating and refining strategy, closer alignment of board composition with strategy, and better alignment of goals in the short, medium, and long-term.

7.4 Executive Compensation

Boards have the ability to build an executive compensation system that reflects the risk appetite and profile of the company and incents the correct behavior. The NACD recommends boards adopt a compensation philosophy to guide their actions, ensure independence of the board and compensation committee, strive for pay packages perceived as fair internally and externally, design pay packages that promote long-term shareholder value, link pay to performance, and ensure transparency both internally and externally. Boards can improve executive compensation through better performance metrics, stronger oversight of human capital development, increased independence of the compensation committee, use of independent compensation advisors, and more proactive shareholder communications.

7.5 Transparency

There is a need for increased useful transparency surrounding board decisions, providing a foundation for constructive management oversight, better and more relevant information for shareholder decisions, and clearer accountability of management and the board. Boards can improve transparency by becoming more proactive in shareholder communications, making greater use of technology in communications such as annual shareholder meetings and by use of Extensible Business Reporting Language, and by disclosing more about board processes. Safe harbor laws providing legal protection could be helpful in implementing these methods to improve transparency.

7.6 Major thrust of Corporate Governance

The major thrust areas of corporate governance represent the key focus areas where companies, regulators, and stakeholders place their emphasis to ensure effective governance practices. These areas evolve over time in response to changing business environments and societal expectations. As of my last knowledge update in September 2021, here are some of the major thrust areas of corporate governance

7.6.1 Board Composition and Independence

Ensuring a balanced and independent board of directors is crucial. This includes having a sufficient number of independent directors who can provide objective oversight of management.

7.6.2 Executive Compensation

Aligning executive compensation packages with company performance and long-term shareholder value is a major concern. Transparency in executive pay and the use of performance-based incentives are key aspects.

7.6.3 Shareholder Rights

Protecting and enhancing shareholder rights, including voting rights, is a fundamental aspect of corporate governance. Measures to facilitate shareholder engagement and activism are often considered.

7.6.4 Risk Management and ESG (Environmental, Social, and Governance) Factors:

Identifying, assessing, and managing risks, including ESG risks, is a growing concern. Companies are expected to integrate ESG considerations into their governance practices and disclosures.

7.6.5 Ethical Conduct and Corporate Culture:

Fostering a culture of integrity, ethical behavior, and responsible corporate citizenship is essential. This includes the prevention of ethical lapses and corporate misconduct.

7.6.6 Board Effectiveness and Training:

Enhancing board effectiveness through regular evaluations and providing directors with relevant training and education is a priority. This ensures that boards can fulfill their oversight responsibilities effectively.

7.6.7 Regulatory Compliance

Adhering to a complex web of laws and regulations is critical. Ensuring compliance with relevant legal and regulatory frameworks is a primary thrust area

7.6.8 Long-Term Sustainability and Responsible Business Practices

Companies are expected to consider their long-term sustainability and adopt responsible business practices. This includes addressing climate change, diversity and inclusion, and community impact.

7.8 Indian model of Corporate Governance

The Indian model of corporate governance has evolved over the years to address the unique needs and challenges faced by Indian companies and the broader business environment. It has been influenced by both regulatory reforms and corporate practices. As of my last knowledge update in September 2021, here are some key features and components of the Indian model of corporate governance

7.7.1 Regulatory Framework

India has a comprehensive regulatory framework for corporate governance, primarily governed by the Companies Act, 2013, and the Securities and Exchange Board of India (SEBI) regulations. These regulations lay down the principles and guidelines for governance practices

7.7.2 Board of Directors

The board of directors plays a central role in Indian corporate governance. It is expected to be diverse, including independent directors, and to provide effective oversight of management

7.7.3 Independent Directors

The appointment of independent directors is a critical aspect of Indian corporate governance. They are expected to bring objectivity and impartiality to the decision-making process and provide checks and balances

7.7.4 Audit Committee

Companies are required to have audit committees, which are composed of independent directors. These committees oversee financial reporting, audit processes, and internal controls

7.7.5 Shareholder Rights

Indian corporate governance emphasizes the protection of shareholder rights. Shareholders are encouraged to exercise their rights through voting, and proxy advisory firms play a role in providing recommendations to institutional investors

7.7.6 Executive Compensation

There are regulations in place to ensure transparency in executive compensation. Disclosures related to executive pay and related-party transactions are required

7.7.7 Related-Party Transactions

Companies are required to disclose related-party transactions and obtain approval from shareholders for significant transactions involving related parties

7.7.8 Stakeholder Engagement

Indian corporate governance recognizes the importance of stakeholders beyond shareholders. Companies are encouraged to engage with and consider the interests of employees, customers, suppliers, and the community

7.7.9 Corporate Social Responsibility (CSR):

The Companies Act, 2013, mandates that certain companies spend a portion of their profits on CSR activities. This encourages corporate involvement in social and environmental initiatives.

7.7.10 Whistle-blower Mechanism:

There are provisions for whistleblower mechanisms that allow employees and other stakeholders to report unethical or illegal behavior within the organization.

7.8 References

1. "Corporate Governance and Ethics: An Aristotelian Perspective" Author: Alejo José G. Sison Publisher: Edward Elgar Publishing Year: 2018
2. "Business Ethics and Corporate Governance" Author: A.C. Fernando Publisher: Pearson Year: 2018
3. "Corporate Governance: Principles, Policies, and Practices" Authors: Bob Tricker and Christine Mallin Publisher: Oxford University Press Year: 2020
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LESSON- 8
INFLUENCE OF ETHICAL DECISION MAKING

Objectives of the lesson
- ✓ To understand what is decision making
- ✓ To know the decision-making process
- ✓ To study factors affecting decision making process

8.1 Introduction
8.1.1 Individual Behavior:
8.1.2 Professional Conduct:
8.1.3 Social Dynamics
8.1.4 Legal Compliance
8.1.5 Interpersonal Relationships
8.1.6 Long-Term Impact
8.1.7 Decision-Making Processes

8.2 Ethical decision-making
8.2.1 Identify the Decision and the Stakeholders:
8.2.2 Identify the Ethical Issues
8.2.3 Consider Different Perspectives
8.2.4 Evaluate Options
8.2.5 Apply Ethical Principles
8.2.6 Make a Decision
8.2.7 Take Action
8.2.8 Reflect on the Decision
8.2.9 Seek Feedback
8.2.10 Learn and Adapt

8.3 Factors influencing Ethical decision-making
8.3.1 Personal Values and Beliefs
8.3 2 Cultural Influences
8.3.3 Peer Pressure and Social Influence
8.3.4 Organizational Culture
8.3.5 Leadership Behavior
8.3.6 Psychological Factors
8.3.7 Moral Development
8.3.8 Organizational Pressures
8.3.9 Legal Considerations

8.4 Ethical Education and Training
8.4.1 Perceived Consequences
8.4.2 Situational Context
8.4.3 Media and Public Opinion

8.1 Introduction
Ethical decision-making plays a crucial role in various aspects of life, including personal relationships, professional settings, and societal contexts. The influence of ethical decision-making can be observed in several ways.

Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager. Decisions play important roles as they determine both organizational and managerial activities.

A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision making process is continuous and indispensable component of managing any organization or business activities.

8.1.1 Individual Behavior:

- **Personal Values:** Ethical decision-making is often influenced by an individual's personal values. People tend to make decisions that align with their ethical principles and beliefs.
- **Conscience:** Ethical decision-making is guided by an individual's conscience, which serves as an internal compass for distinguishing right from wrong.

8.1.2 Professional Conduct:

- **Workplace Ethics:** Ethical decision-making is vital in professional environments. Employees and leaders need to make ethical choices that uphold the values and integrity of the organization.
- **Corporate Social Responsibility (CSR):** Organizations are increasingly recognizing the importance of ethical decision-making in their operations. CSR initiatives reflect a commitment to ethical behavior beyond profit motives.

8.1.3 Social Dynamics:

- **Social Norms:** Ethical decisions are often influenced by societal norms and expectations. Individuals may conform to accepted ethical standards to gain social approval and avoid judgment.
- **Cultural Influences:** Cultural values play a significant role in shaping ethical decision-making. Different cultures may have varying perspectives on what is considered ethical behavior.

8.1.4 Legal Compliance:

- **Legal Frameworks:** Ethical decision-making is closely tied to legal considerations. Individuals and organizations often make decisions that comply with existing laws and regulations to avoid legal consequences.

8.1.5 Interpersonal Relationships:

- **Trust and Respect:** Ethical decision-making is crucial for building and maintaining trust in interpersonal relationships. People are more likely to trust and respect individuals who consistently make ethical choices.
- **Conflict Resolution:** Ethical decision-making is instrumental in resolving conflicts. Approaching conflicts with a commitment to ethical principles can lead to fair and just resolutions.

8.1.6 Long-Term Impact:

- **Sustainability:** Ethical decision-making considers the long-term impact of choices on individuals, communities, and the environment. Sustainable practices often align with ethical considerations.

- **Reputation Management:** Ethical behavior contributes to positive reputations for individuals and organizations. Conversely, unethical decisions can lead to reputational damage and loss of trust.

8.1.7 Decision-Making Processes:

- **Ethical Frameworks:** Ethical decision-making is often guided by various ethical frameworks, such as utilitarianism, deontology, or virtue ethics. These frameworks provide structured approaches for evaluating the morality of actions.
- **Reflective Thinking:** Ethical decision-making involves reflective thinking, where individuals critically assess the potential consequences of their actions on different stakeholders.

In summary, ethical decision-making influences individual behavior, professional conduct, social dynamics, legal compliance, interpersonal relationships, long-term impact, and the decision-making processes themselves. It is a cornerstone for fostering a just and responsible society.

8.2 Ethical decision-making

Ethical decision-making is a thoughtful and systematic process that involves considering various factors and perspectives to arrive at a morally sound choice. While different ethical frameworks exist, a general ethical decision-making process might include the following steps:

8.2.1 Identify the Decision and the Stakeholders:

- Clearly define the decision that needs to be made.
- Identify the individuals or groups (stakeholders) who will be affected by the decision.

8.2.1 Gather Relevant Information:

- Collect all relevant facts and information related to the decision.
- Consider the potential impact of the decision on different stakeholders.

8.2.2 Identify the Ethical Issues:

- Determine the ethical issues or dilemmas involved in the decision.
- Recognize conflicting values or principles that need to be addressed.

8.2.3 Consider Different Perspectives:

- Examine the situation from various ethical perspectives.
- Understand how different stakeholders might view the decision.

8.2.4 Evaluate Options:

- Generate a list of possible options or courses of action.
- Assess the ethical implications of each option.

8.2.5 Apply Ethical Principles:

- Consider ethical principles or frameworks (e.g., utilitarianism, deontology, virtue ethics) to analyze the options.
- Evaluate how each option aligns with ethical standards and principles.

8.2.6 Make a Decision:
- Select the option that is most consistent with ethical principles and values.
- Consider the potential consequences of the decision.

8.2.7 Take Action:
- Implement the chosen decision in a timely and effective manner.
- Communicate the decision to relevant stakeholders as appropriate.

8.2.8 Reflect on the Decision:
- Reflect on the decision-making process.
- Consider whether the decision was ethically sound and whether any improvements can be made in future decisions.

8.2.9 Seek Feedback:
- Obtain feedback from stakeholders about the decision.
- Use feedback to improve the ethical decision-making process for future situations.

8.2.10 Learn and Adapt:
- Learn from the experience and apply insights to future ethical dilemmas.
- Continuously refine and adapt the decision-making process based on lessons learned.

It's important to note that ethical decision-making is not always straightforward, and individuals may need to navigate complex situations where values and principles conflict. Additionally, context and cultural considerations can influence the perception of what is ethically acceptable. The process outlined above provides a structured approach to help individuals and organizations make thoughtful and ethically defensible decisions.

8.3 Factors influencing Ethical decision-making

Ethical decision-making is influenced by a variety of factors that can shape an individual's perceptions, values, and choices. These factors can be complex and interconnected. Here are some key factors that can affect ethical decision-making:

8.3.1 Personal Values and Beliefs:

Individual ethical decision-making is often rooted in personal values, principles, and beliefs.
The strength of one's moral convictions can significantly influence the choices made in ethical dilemmas.

8.3 2 Cultural Influences:

Cultural norms and values play a crucial role in shaping ethical perspectives.
Different cultures may have varying views on what is considered ethical behavior, influencing decision-making accordingly.

8.3.3Peer Pressure and Social Influence:

The desire for social approval or fear of social rejection can impact ethical decision-making.
Individuals may be influenced by the ethical choices of their peers and the prevailing social norms.

8.3.4Organizational Culture:

The culture within an organization can strongly influence ethical decision-making.

Corporate values, policies, and leadership behavior set the tone for ethical conduct within the workplace.

8.3.5Leadership Behavior:
The behavior and ethical stance of leaders within an organization can have a cascading effect on employees.

Ethical leaders who model integrity and ethical decision-making can positively influence the ethical climate of the workplace.

8.3.6 Psychological Factors:
Cognitive biases, such as confirmation bias or overconfidence, can affect ethical decision-making.
Emotional states, stress, and moral emotions can also influence the perception of ethical issues.

8.3.7Moral Development:
Individuals go through stages of moral development, as proposed by theorists like Lawrence Kohlberg.

The stage of moral development an individual has reached can impact their approach to ethical decision-making.

8.3.8 Organizational Pressures:
Pressure to achieve targets, meet deadlines, or achieve financial goals can create ethical dilemmas.
Individuals may feel compelled to compromise ethical principles under organizational pressures.

8.3.9Legal Considerations:
The legal framework within which decisions are made can impact ethical choices.
Individuals may feel constrained by legal requirements or use legal standards as a reference for ethical decision-making.

8.4 Ethical Education and Training:
Exposure to ethics education and training can enhance ethical decision-making skills.
Individuals with a strong ethical education may be better equipped to navigate complex ethical situations.

8.4.1 Perceived Consequences:
Anticipation of the consequences, both positive and negative, can influence ethical decision-making.
Individuals may weigh the potential outcomes of their choices when making ethical decisions.

8.4.2Situational Context:
The specific details and context of a situation can have a significant impact on ethical decision-making.

Individuals may adapt their ethical choices based on the unique aspects of each scenario.

8.4.3Media and Public Opinion:

Public scrutiny and media coverage can influence how individuals perceive ethical issues.
Reputational concerns may affect decision-making in the context of public opinion.
Considering these factors in the ethical decision-making process can help individuals and organizations better understand the complexities involved and make more informed and ethically sound choices.

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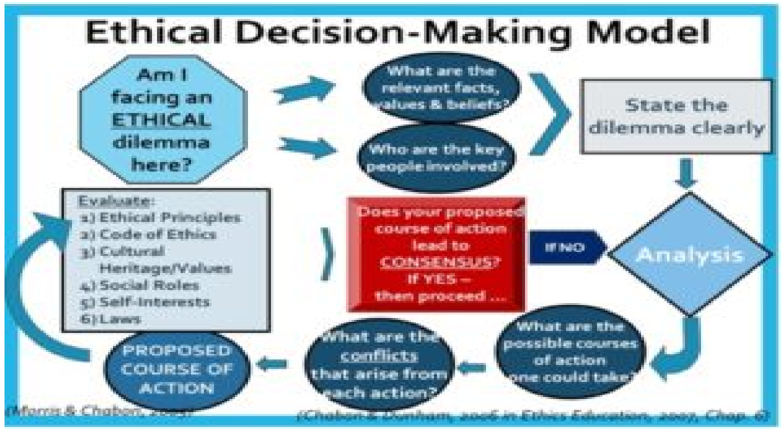
LESSON -9

ETHICAL DECISION MAKING IN BUSINESS



Learning Objectives

1. To increase the knowledge of Ethical decision making in business
2. To impart awareness on different models of ethical decision making
3. To know about factors influencing on ethical decision making in business
4. To evaluate the alternative models and approaches of ethical decision making in business

Structure

9.1 Introduction to Ethical decision making in Business
9.2 Meaning and definition of ethical decisions .
9.3 Need and importance of ethical decision making in business
 9.3.1. Recognize an Ethical Issue
 9.3.2. Get the Facts
 9.3.3. Evaluate Alternative Actions
 9.3.4. Make a Decision and Test It
 9.3.5. Act and Reflect on the Outcome
9.4 Ethical approaches
9.4.1 Features of Ethical Decisions
9.4.2 Significance of Ethical decision making in Business
9.4.3 Factors That Influence Ethical Decision Making
9.4.4 Individual factors
9.4.5 Organizational factor
9.4.6 Several factors can influence ethical decision making in business. These factors include
9.5 Importance of Ethical Decision Making in Business
9.6 The relation of personal values and Ethical decision making
9.7 Trustworthiness
9.8 Drawbacks of Ethical Decision Making in Business
9.9 Conclusion
9.10. Keywords
9.11 Self Assessment Questions
9.12 Reference

9.1 Introduction

Ethical decision making in business is a critical aspect that companies need to consider to ensure that they are operating within acceptable ethical standards. The decision-making process involves evaluating the potential outcomes of a decision and selecting the course of action that best aligns with the company's ethical values. Ethical decision making is an essential part of corporate social responsibility, and it helps businesses avoid legal issues and reputation damage. In this lesson , we will discuss the importance of ethical decision making in business and explore some of the factors that influence ethical decision making.

Making good ethical decisions requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical decision making is absolutely essential. When practiced regularly, the method becomes so familiar that we work through it automatically without consulting the specific steps. (Manuel Velasquez, 2015)

9.2 Meaning of Ethics:

The term 'ethics' defines the standards that bear on right and wrong issues of Society. Business ethics is thus a set of professional standards, which emphasize principles of honesty and duty to the business and the general public. The other significant principles included in business ethics are

- Fairness
- Integrity
- Commitment to agreements
- Broad-mindedness
- Considerateness
- Importance given to human esteem and self-respect
- Responsible citizenship
- Attempt to excel
- Accountability

9.3 Need and importance of ethical decision making in business:

9.3.1. Recognize an Ethical Issue

Recognizing an ethical issue requires you to ask some questions to yourself that is how it will affect the others. We may ask the question like could this decision or situation be damaging to someone or to some group or does this decision involve a choice between a good and bad alternative, or perhaps between two "goods" or between two "bads".

9.3.2. Get the Facts

This step involves taking different facts into consideration that might affect the decision or trying to gather unknown facts.e-g what are the relevant facts of the case or what facts are not known? What are the options for acting? Have all the relevant persons and groups been consulted? Have I identified creative options.

9.3.3. Evaluate Alternative Actions

This step involves evaluating the different possible decisions that one might wants to take and then deciding at the best possible action. It would involve:

• Which option will produce the most good and do the least harm? (The Utilitarian Approach)

• Which option best respects the rights of all who have a stake? (The Rights Approach)

9.3.4. Make a Decision and Test It
It involves after evaluating different approaches which decision would suit best to the given situation. It would involve asking questions to yourself like to consider all these approaches, which option best addresses the situation?
The Role of Ethical Decision Making in Business

9.3.5. Act and Reflect on the Outcome
This is the step that should be taken after making the decision that is How can my decision be implemented with the greatest care and attention to the concerns of all stakeholders or How did my decision turn out and what have I learned from this specific situation.

9.4 Ethical approaches
Utilitarian: Utilitarianism is a consequential ethics. According to the utilitarian's one can determine the ethical significance of any action by looking to the consequences of that act. It Focuses on the philosophy of maximizing the overall good i-e "The greatest good for the greatest number". It tries both to increase the good done and to reduce the harm done. In utilitarian principle ends justify means.

Rights: This approach believes that humans have a dignity based on their human nature or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights -including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy etc. Also, it is known that rights imply duties-in particular, the duty to respect others' rights.

Justice : It says that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally-or if unequally, then fairly based on some standard that is defensible. We pay people more based on their hard work or the greater amount that they contribute to an organization, and say that is fair. It looks that whether the decision is defensible or not.

Virtue : A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness etc are all examples of virtues. Virtue ethics asks of any action like is this action consistent with my acting at my best. (Thomas Shanks, 2015)

9.4.1 Features of Ethical Decisions
Following are the features of ethical decisions:

1) Leadership ; The culture of an ethical business starts from the top of the organizational chart. For a business to be ethical, its leaders at the top level must demonstrate ethical practices. The true test of this leadership is in the decision-making process when there is a choice between what is ethically responsible and what will result in profit or gain. When the culture is solid at the top of the organization, it trickles down to all lower areas in organization.
1. Values : An ethical business has a core value statement that describes its mission. Any

business can create a value statement, but an ethical business lives by it. It communicates this mission to every employee within the structure and ensures that it is followed. The ethical business will institute a code of conduct that supports its mission and is followed by every employee.

2. Integrity: Integrity is an important characteristic of an ethical business. The ethical business adheres to laws and regulations at the local, state and federal levels. It treats its employees fairly, communicating with them honestly and openly. It demonstrates fair dealings with stakeholders and other related concerns.

3. Loyalty : Solid relationships are a cornerstone of an ethical business. Employees who work for a loyal employer want to maintain the relationship and will work harder toward that end. Vendors and customers will remain loyal to a business that is reliable and dependable in all situations. An ethical business stays loyal to its partnerships even in challenging times. The result is a stronger relationship when emerging from the challenge.

4. Concern: An ethical business has concern for anyone and anything impacted by the business. This includes customers, employees, vendors and the public. Every decision made by the business is based on the effect it may have on any one of these groups of people, or the environment surrounding it. (Phillips)

9.4.2 Significance of Ethical decision making in Business

Ethical decision making is critical in business for several reasons. Firstly, ethical behaviour helps businesses build a strong reputation and establish trust with their stake-holders, including customers, employees, shareholders, and regulators. A company that prioritizes ethical values and makes ethical decisions is more likely to attract and retain customers and employees who share those values. Secondly, ethical decision making can help businesses avoid legal problems and financial losses. Unethical practices can result in lawsuits, fines, and damage to a company's reputation. By making ethical decisions, businesses can reduce the risk of legal and financial consequence.

Businesses can adopt ethical decision-making frameworks to guide their decision-making processes. One such frame work is the Utilitarian approach, which suggests that the ethical decision is the one that produces the greatest amount of good for the greatest number of people. Another framework is the Deontological approach, which focuses on following ethical principles and rules regardless of the consequences. The Virtue approach is another framework that emphasizes the development of ethical character traits and values, such as honesty, fairness, and compassion.

Ethical decision making is also closely linked to corporate social responsibility (CSR), which is the idea that businesses have a responsibility to act in the best interests of society and the environment. By integrating ethical considerations into their decision-making processes, businesses can contribute to creating a more sustainable and equitable society.

9.4.3 Factors That Influence Ethical Decision Making

Business ethics comprises principles and standards that guide individual and workgroup behavior in the field of business. Stakeholders determine these conventions and they may change over the period of time. The most basic of these standards have been codified as laws and regulations. Business Ethics go beyond legal issues.

Since individuals in the business may not embrace the same set of values, the conflicts may take place. Such questionable decisions and actions may result in disputes, which need to be resolved through negotiation or litigation. If the ethical standards are codified into meaningful policies, the business people can be reduce the possibility of legal problems. Business decisions involve complex discussions which may not had to clarity. Consistent and reliable relationships with all the stakeholders must be maintained and shared. The ethical decision making process can help individuals and business design strategies to prevent misconduct.

The ethical decision making process can help individuals and business design strategies to prevent misconduct. Four of the important components of ethical decision are:
1. Individual factors
2. Organizational relationships
3. Opportunity
4. Issue Intensit

9.4.4 Individual factors

Ethical decision making process is affected by personal moral philosophy, stage of moral development, motivation, experience and achievement, long term and short-team goals, personality and professionalism, knowledge, education demographics like gender, age, geography etc Moral philosophies are those principles and rules that individuals apply in during what is right and wrong. They can be classified as consequentialism, ethical formalism or justice. Consequentialist philosophies consider a decision to be right or acceptable if it accomplishes a desired result such as pleasure, knowledge, career growth, the realization of self-interest or utility. It can be further divided into utilitarianism and egoism. Ethical Formalism Focuses on the right of individuals and on the intentions associated with a particular behavior rather than on its consequences.

Justice theory relates to evaluations of fairness, or the disposition to deal with perceived injustice to others. McClelland identified three different social needs that may motivate an individual in an ethical decision making. Power, affiliation and achievement. In addition to above factors age, gender, experience socialization etc. also have their influence on ethical decision making. Level of education and professionalism are two individual elements affecting ethical decisions. The decision making skill will be different from the person's education as a professional person is bound by the code of conduct of the business unit.

9.4.5 Organizational factor

The culture of the organization, as well as superiors, peers and subordinates can have a significant impact on ethical decision making. Organizational or corporate culture can be defined as a set of values, beliefs, goals, norms, and rituals shared by members or employees of an organization. Firm's over all culture establishes ideals that guide a wide range of behavior for members of the organization, white its ethical climate focuses specifically on issues of right or wrong. Strong work place ethics create ethical culture and pressuring employees to follow it, while weak work place ethics culture to follow it, while weak work place ethic.

Other important factors are superiors, peers and subordinates who influence the ethical decision-making process. Interaction between corporate culture and executive leadership helps to determine the ethical value system. The more a person is exposed to unethical activity by others, the more likely it is that the will behave unethically. Superiors and co-workers can be create organizational pressure in creating and solving ethical issue:

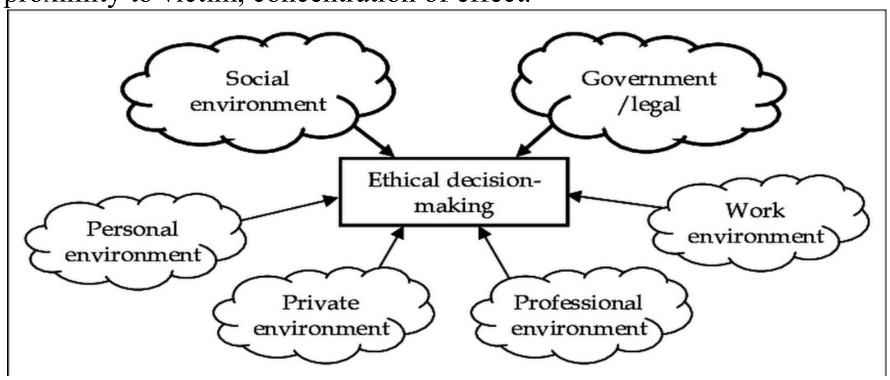
Reward system in the organization also influence ethical decision making because generally people tend to do what they are rewarded for. Authority also influence ethical decision making. As they do what they are told to door what they are being told to do.

1. Opportunity :

If an individual takes advantage of an opportunity to act unethically and escapes punishment or gains a reward, that person may repeat such acts when circumstances favour them

2. Issue Intensity:

Ethical intensity is the degree of importance of an issue for an individual and group. There are six factors involved in it; harm, consensus of wrong, probability of harm speed of result, proximity to victim, concentration of effect.

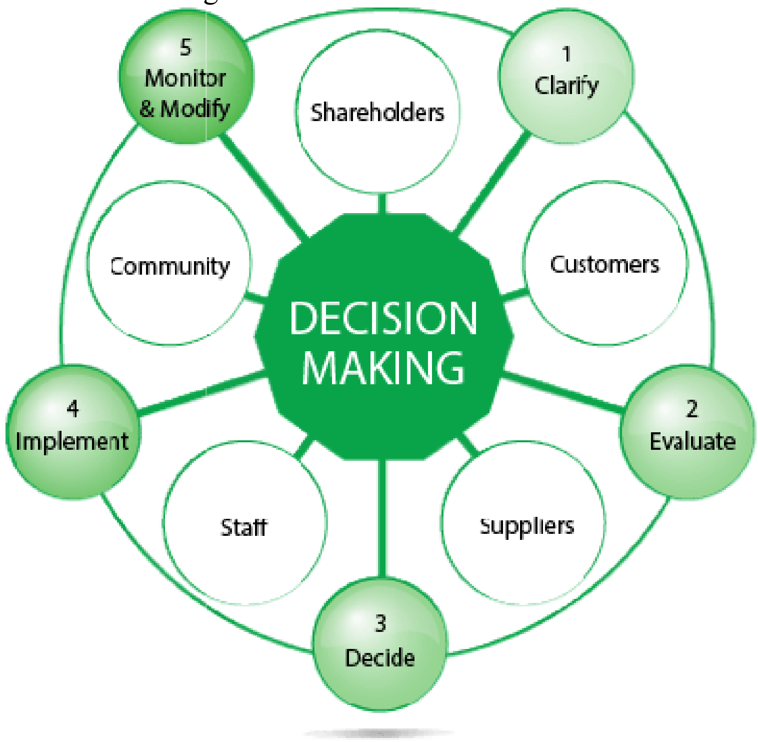


9.4.6 Several factors can influence ethical decision making in business. These factors include

- Organizational Culture: Organizational culture plays a significant role in shaping ethical decision making. A company's culture reflects its values, beliefs, and norms. If a company's culture emphasizes profits over ethical behaviour, employees may feel pressured to prioritize profits over ethics.
- Leadership: The actions and decisions of senior leaders in a company can have a significant impact on ethical decision making. Leaders who prioritize ethical values and model ethical behaviour can create a culture of ethics within the organization.
- Personal Values: Personal values can also influence ethical decision making. Individuals who have a strong sense of personal ethics are more likely to make ethical decisions in their professional lives.
- Stakeholder Pressure: Pressure from stakeholders, including customers, employees, shareholders, and regulators, can also influence ethical decision making. For example, if customers demand that a company use sustainable practices, the company may feel pressure to make ethical decisions that align with those demands.
- Incentives: Incentives can also influence ethical decision making. If employees are rewarded for achieving certain performance metrics, they may

be more likely to prioritize those metrics over ethical considerations.

Steps in Ethical Decision Making:



There are several steps involved in ethical decision making in business. These steps include…

- Recognize the ethical issue: The first step in ethical decision making is to recognize that there is an ethical issue that needs to be addressed
- Gather information: Once an ethical issue has been identified, it is essential to gather as much information as possible to understand the situation fully.
- Identify the stakeholders: It is important to identify all stakeholders who may be impacted by the decision
- Evaluate the options: Once all the relevant information has been gathered, it is time to evaluate the available options
- Make a decision: After evaluating the options, a decision must be made based on what is most ethical
- Take action: After making a decision, it is essential to take action and implement the decision.
- Evaluate the decision: Finally, it is important to evaluate the decision to determine if it was the right one and if any changes need to be made in the future.

9.5 Importance of Ethical Decision Making in Business

- Maintaining Reputation: Ethical decision making helps a business maintain a positive reputation, which can attract and retain customers, employees, and investors who share similar ethical values

- Avoiding Legal Issues: Making ethical decisions can help a business avoid legal issues and financial losses. Ethical behaviour ensures compliance with laws and regulations ,reducing the risk of legal and financial consequences

- Building Trust: Ethical behavior can help a business build trust with stakeholders, including customers, employees, and regulators. Trust is essential for a business to succeed in the long run.
- Promoting Corporate Social Responsibility: Ethical decision making is a crucial part of promoting corporate social responsibility, which is the idea that businesses have a responsibility to act in the best interests of society and the environment.

9.6 The relation of personal values and Ethical decision making

In an ideal world, ethics should play the ultimate role when making a decision. If ethics are principles which guide one's behavior then, ideally, all the decisions should be made entirely based on ethics. Unfortunately, such is not always the case.

A few problems arise when one tries to make an ethical decision, especially as a leader.

1. Ethics may mean different things to different people for example, some body's ethics are based on religious and spiritual beliefs, while others ethics are based on Law and personal understanding. But still, there are some ideals or behaviors where all agree upon like stealing from someone or murder someone is wrong.

2. Additionally, there are times when it might be easier for a leader to make an unethical decision to get an immediate gain or complete the wants of an organization. But, the true character of leader is tested when they are confronted with such a decision. Because such decisions are not easy to take. Recognizing that not all decisions are ethical, one's moral principles act as guide for such behavior.

Therefore, ethics do (and should) play a major in decision making. Communication is the key in relation to personal ethics. Personal ethics should be communicated through one's actions, ethical beliefs should be communicated through decision making. Personal values may conflict with ethical decision making if those personal values are different than the organizational norms of the business or institution. Before a leader makes an ethical decision, they should make sure that the decision is based on the organizational norm rather than their own value system. What informally regulates the inner workings of the business community is a set of principles that dictate behavior. The book "Making Ethical Decisions" provides us six pillars of character.

1.Trustworthiness
2.Respect
3.Responsibility
4.Fairness
5. Caring
6. Belongingness

9.7 Trustworthiness

It includes a variety of behavirour : honesty, integrity, reliability and loyalty.

a) Honesty : It is the fundamental ethical value, it is associated with people of honour, we admire honest people. It can be overtly seen in honesty in communication and honesty in conduct.
b) Honesty in communication means to convey the trust as best as we now it and avoid misleading or deceit. It includes truthfulness, sincerity or non-deception and frankness :

c) Honesty in conduct prohibits stealing, cheating, fraud and playing tricks. Such acts are considered to be violation of trust and fairness.

d) Integrity: Integrity means sameness in the behaviour when an ethical person acts at work, at home, in public or alone. He takes time for self-reflection so that the events, crises, and necessities of the day do not determine the course of their moral life, they stay in control. Integrity may be adversely affected by self-interest, self-protection, self-deception and self-righteousness.

e) The ethical decision making and promise-keeping need fulfillment of our commitments. Further, it is important to avoid bad-faith excuses, avoid unwise commitments, avoid unclear commitments. These mean that one should not try to rationalize non-compliance fore scalping commitments. One should weigh carefully what they are willing and likely to take up before they make any commitment. Further, the other person should understand what they have promised and committed to do.

f) Loyalty: Loyalty is about promoting and protecting the interest of people, organization and affiliation. One should prioritize loyalties as it is often difficult to address them all simultaneously. It also requires us to keep secretes and information learned in confidence. Further, the employees and public servants have an additional responsibility of making all professional decisions on merit, and not on personal interest. Here the goal is to maintain the trust of the public

1. Respect :Respecting is honoring the essential worth and dignity of all people, including oneself we are morally obligated to treat everyone with respect regardless of who they are and what they have done. We have the responsibility to e the best we can be in all situations, even when dealing with unpleasant people. It focuses on courtesy and decency. A respectful person treats others with consideration conforming to accepted notions of taste and propriety and does not resort to intimidation (frightening),coercion (compulsion) and violence except in extraordinary and limited situations to teach discipline, maintain order and achieve social justice

2. Responsibility: Being responsible means being in charge of our work we do, the duty, we have and the choices we make. It also means that we recognize what we do and what we don't do. Responsibility rests of the following pillar: Accountability, pursuit of excellence, diligence, perseverance continuous improvement and self-restraint.

3. Fairness: Fairness refers to a range of morally justifiable outcomes rather than discovery of one fair answer open and unbiased process done with impartiality and equity leads to fairness. Decisions should be unbiased with favoritism and prejudice. It is important to take advantage of weakness, and ignorance of others.

4. Caring : Caring is the soul of ethics. Ethics is ultimately about our responsibilities towards other people one should consciously cause no more harm than is reasonably necessary.

5. Belongingness: The concept of belongingness includes how we ought to behave as a part of a community. The good citizen knows the laws and obeys them. Citizens do

more than their fair to make society work, now and for future generation. They conserve resources, recycle them, and contribute to community

9.8 Drawbacks of Ethical Decision Making in Business

- Short-Term Financial Impact: Ethical decision making can have short-term financial impacts that may be perceived as negative. For example, implementing environmentally sustainable practices may involve higher costs in the short term.

- Competing Interests: Ethical decision making may involve balancing competing interests, such as the interests of shareholders, customers, and employees. Finding a balance can be challenging, and not everyone may be satisfied with the decision.

- Time-Consuming: Ethical decision making can be time-consuming, involving extensive research, analysis, and consultation with stakeholders. This can slow down the decision-making process, potentially affecting the business's operations.

- Subjectivity: Ethical decision making can be subjective, with different individuals and organizations having different ethical values and principles. This subjectivity can make it challenging to arrive at a consensus on what constitutes ethical behavior.

9.9 Conclusion

In conclusion, ethical decision making in business is crucial for maintaining a positive reputation, avoiding legal issues and financial losses, and promoting corporate social responsibility. Ethical decision making is influenced by several factors, including organizational culture, leadership, personal values, stakeholder pressure, and incentives. The steps involved in ethical decision making include recognizing the ethical issue, gathering information, identifying stakeholders, evaluating options, making a decision and taking action, and evaluating the decision. However, ethical decision making is not always straight forward, and it can be challenging to balance competing interests and values. Therefore, businesses should establish ethical codes of conduct and provide ethical training to employees to help them make ethical decisions in complex situations.

9.10. Keywords

honesty, integrity, reliability and loyalty intimidation (frightening),coercion (compulsion)

9.11 Self Assessment Questions

1) What about Ethical approaches ?
2) Discuss Importance of Ethical Decision Making in Business ?
3) Explain the Drawbacks of Ethical Decision Making in Business ?

9.12 Reference

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LESSON-10

ETHICAL DECISION MAKING WITH CROSS-HOLDER CONFLICTS AND COMPETITION

Objectives of the Study

The broad objective of the study is to analyse Business Ethics. The specific objectives of the study are:-

1. To evaluate the perception of employees towards business ethics.
2. To evaluate the perception of moral ethics
3. To assess the effectiveness of Moral Decision Making.

Structure

10.0 Introduction

The study of ethical decision making has witnessed significant strides over the last few decades. Indeed, just six years into the current decade we already see almost three-times the number of articles published since the previous decade. Advancing from a small niche arena to one that has gained in both volume and importance in the management field, perhaps most note- worthy is that the "field" of ethical decision making is now substantial enough to be the target of two recent and impressive reviews. This is quite a contrast to an experience of the first author, who remembers giving a job talk on ethical decision making in the mid-1990s to a well-respected institution and being asked “what are you going to do research on when this is no longer a fad?”

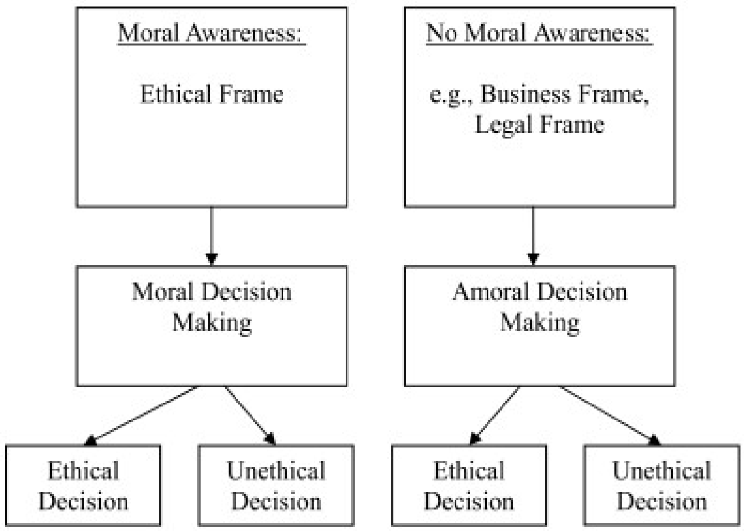
While this trend is exciting, it also serves as a wake-up call. Research on ethical decision making is at a critical juncture. Typical of relatively new fields, theoretical models are scarce, empirical research has been largely correlational and exploratory, and critical evaluation is limited. To move the field forward, what is needed is an overarching understanding of what we know and what we do not know and where we should go from here.

The purpose of this paper is to review the literature on ethical decision making in organizations, specifically focusing on behavioral, or descriptive, ethics, and in doing so highlighting the juncture at which the field finds itself and charting out the paths that we might take. Our goal is not to repeat what already has been nicely laid out in previous reviews nor is it to simply report on what has been done in the field of ethical decision making. Rather, we embarked on this review attempting to identify the skeleton of the story that exists in the extant literature and to note the holes that have yet to be filled. Our process was thus inductive in that we sought less to confirm any existing theoretical frameworks and more to identify the frameworks that arise from the data. In some sense, what we offer is a “qualitative meta analysis”, one that identifies key relationships and factors in the ethical decision-making process. This process led us to the development of a model of ethical decision making and a typology of dependent variables which summarize both where we’ve been as a field and where we see the field going. This model and typology provide the basis of the structure of our paper.

As readers are taken through our review, we expect that they will note that we are both hopeful and disappointed in the field. Hopeful, as pointed out previously, by the increased attention to ethics, yet disappointed by the lack of representation in Academy of Management journals. Hopeful because the variables studied in connection with ethical decision making seem to be ever-expanding, but disappointed that fundamental concepts remain undefined and assumptions unsubstantiated. Hopeful that some studies do rely on theory to make their predictions, yet disappointed that many are still theoretical or unitheoretical, relying on a single theory. Hopeful that there is some attention to the process underlying ethical decision making, yet disappointed that most research assumes that the process is a reason-based one, thus ignoring the roles of emotions, the subconscious, and intuition.

In our review, it became readily apparent that one notable void in the field was a definition of the fundamental concept of “ethical”, an issue that was important to discuss upfront before reviewing the literature. Following this discussion, we provide a necessary summary of the studies on which our review is based. This section is organized by the major categories in our model (Figure 10.1) moral awareness, moral decision making and amoral decision making with any critique that is specific to those summaries provided in that section. Where applicable, we separately note recent progress in each of these areas which may provide new insights. Finally, a more encompassing critique follows the summary, with recommendations that are designed to address our noted criticisms rounding out the review.

Before turning to the summary, it is important to note that we focused our review on havioral, or descriptive, ethics within the domain of business ethics, but we draw from work in other fields as well, especially psychology. We cannot claim to provide an exhaustive review of ethical decision making in organizations, much less the relevant work in other areas, yet what we do present is our best effort at documenting the significant developments in the field in the last several decades, particularly those that apply to an organizational context.



Business ethics are moral values or principles that help business organisations to develop and execute the right policies. The qualities of practices business organisations adopt depend on their allegiance to business ethics. Ethical business is all-important in this modern age of ethical investment and consumerism. Business ethics is a catalyst for creating trust between businesses and stakeholders. As a part of business culture, business ethics guides organisations and individuals associated with organisations when they are confronted with tough choices involving moral issues. Though existing from time immemorial, the discussion on business ethics is more significant than ever before due to the increasing instances of business scams and scandals worldwide.

For example, the U.S. energy giant Enron, which published the Corporate Responsibility Accountability Report, ended up major accounting fraud. Sahara India, whose corporate governance issues in the form of unethical conduct from the part of management and violation of laws got exposed in 2014, had a long tradition of CSR activities. It is also important to note that stakeholders prefer holistic appraisal of business organisations these days.

As we practice resolving dilemmas we find ethics to be less a goal than a pathway, less a destination than a trip, less an inoculation than a process.

-Ethicist Rushworth Kidder

The problem of ethical decision making becomes more complicated when we factor the conflicting interests of stakeholders in business. In a situation of conflicting interests of stakeholders, as for instance, when an organization with a view to increasing profits and declaring higher dividends to shareholders on a long-term basis, resorts to the introduction of high-technology labour-saving devices, and dismissal of its labour in hundreds, it leads to a very complex ethical decision making problem to managers. Such situations occur very often in industries. While the obligation of the management to the shareholders to make provision for declaring high dividends cannot be questioned. Understanding how we make and follow through on ethical decisions is the first step to making better choices; taking a systematic approach is the second. We'll explore both of these steps in this chapter. After examining the ethical decision-making process, we'll see how guidelines or formats can guide our ethical deliberations.

What is ethical decision-making with cross holder conflict and competition?
Cross holder conflicts and competition Cross holder conflicts and competition.
• The problem of ethical decision making becomes
• While the obligation of the management to the more complicated when we
factor the conflicting shareholders to make provision for declaring interests of stakeholders in business.

A conflict of interest exists when an individual must choose whether to advance his or her own interests, those of the organization, or those of some other group. The medical industry has been faced with many accusations of conflicts of interest with doctors and medical schools regarding payments. For example, Harvard Medical School received an 'F' grade on its conflict of interest policies from the American Medical Student Association. One professor alone was forced to disclose 47 company affiliations from which he was receiving money. To address the problem, a government panel has called for full disclosure of all payments made to doctors, researchers, and universities. The fear is that financial donations from medical and pharmaceutical companies could sway researchers' findings and what is taught in classrooms. To avoid conflicts of interest, employees must be able to separate their private interests from their business dealings. Organizations must also avoid potential conflicts of interest when providing products.14 The U.S. General Accounting Office has found conflicts of interest when the government has awarded bids on defense contracts. The conflicts of interest usually relate to hiring friends, relatives, or retired military officers to enhance the probability of getting the contract. To avoid confl icts of interest, employees must be able to separate their private interests from their business dealings.

10.2 Meaning of "Ethical"

Before we can proceed, the terms at the crux of this review ethical, or moral need to be discussed. Of all noted criticisms, the lack of definitions for these terms is without a doubt the most crucial, for without a universal understanding of the core dependent variable, research will remain inconsistent, incoherent and atheoretical. Many studies we reviewed made no attempt to define it, even those entailing theory-building. As Jones noted, "Some authors, including Ferrell and Gresham (1985), Trevino (1986), Hunt and Vitell (1986), and Dubinsky and Loken (1989) did not provide substantive definitions of the terms ethical and unethical". Like many social science researchers, Ferrell and Gresham (1985) made it clear that such a definition is not within the scope of their paper, stating:

Thus, no attempt is made here to judge what is ethical or unethical. Our concern is with the *determinants of* decision making behavior which is ultimately defined as ethical/unethical by participants and observers. Rather than advocate a particular moral doctrine, we examine contexts and variables that determine ethi- cal decisions in the managerial process.

Warren and Smith-Crowe (forthcoming) put the problem faced by researchers like this:

As social scientists, we are concerned with describing and predicting what people think, perceive, and do; generally we are not in the business of telling people what they should do. The catch, however, is that while behavioral ethics is descriptive rather than prescriptive, good social science requires a thorough understanding and definition of one's constructs researchers only want to predict and describe ethical behavior, but in doing so, they must define what is ethical, and, therefore, they must be in some sense prescriptive.

Thus is the distinction between descriptive (or behavioral) approaches to ethics versus normative approaches: the goal of the former is to study what people do, and the goal of the latter is to construct argument regarding what people *should* do.

There are a few brave researchers of behavioral ethics, however, who do attempt a definition. Rest (1986) provided a very specific definition: "when the term 'morality' is used throughout this book, we intend to refer to a particular type of social value, that having to do with how humans cooperate and coordinate their activities in the service of furthering human welfare, and how they adjudicate conflicts among individual interests" Jones (1991) offered this definition:

An ethical decision is a decision that is both legally and morally accept- able to the larger community. Conversely, an unethical decision is a decision that is either illegal or morally unacceptable to the larger community. This definition follows from Kelman and Hamilton's (1989) definition of crimes of obedience and is consistent with the definitions used, either explicitly or implicitly, by some other authors in the field of ethics.

10.3 Moral Decision Making

When decision frames prompt moral awareness, a moral decision-making process ensues. Jones (1991) provided for a clear connection between moral awareness and moral decision making: "For the moral decision-making process to begin, a person must recognize the moral issues" . This process is *moral* not because the resulting decision is necessarily consistent with ethical principles or norms , but because moral considerations are present during the decision-making process. That is, the ethical relevance of the issue at hand has been recognized and this recognition prompts a consideration of moral implications, but it does not necessarily lead to ethical decisions.

Following Rest's (1986) model of moral decision making, the empirical research on the impact of moral awareness on moral decision making has focused on three components of decision making: moral judgment, moral intention (i.e., the intention to do what is ethical or what is unethical), and behavior. The research on the impact of moral awareness on moral judgment and behavior lends support to the notion that not all decision makers who are morally aware make moral decisions. Singhapakdi et al. (1996) found that awareness was correlated with moral judgment, but Valentine and Fleischman (2003) did not find such a correlation. Similarly, one study found that awareness was related to decision outcomes, while another found no relationship. The evidence regarding moral intention is more straightforward. Moral awareness is positively associated with ethical intentions and negatively associated with unethical intentions.

As indicated by this research, moral decision making may lead to ethical decisions and it may not. Part of the motivation behind our typology was to recognize these two possibilities. Decision makers engaged in moral decision making are aware of the moral implications of their situation, but they may or may not make decisions consistent with moral concerns. Those who do make moral decisions have engaged in “intended ethicality”, while those who do not are engaged in “intended unethicality”. Further, our typology allows for a bit more complexity as it recognizes a third option: moral decision making results in “unintended unethicality” when decision makers make a decision they *believe* is moral, though in fact it is not. The implication of these options is that once the moral decision-making process is engaged, an ethical decision is hardly guaranteed. In the following sections we review the research on the associations between various individual and situational factors and moral decision making outcomes, including judgment, intention, and behavior, which has attempted to shed light on when ethical decisions result from moral decision making and when they do not. Caution should be noted, however, in the categorization of this research under moral decision making; for many of the studies discussed, moral awareness is assumed (typically on the basis of the arguably obvious ethical issues posed in the studies) rather than explicitly measured.

10.4 Correlates of Moral Decision Making:

10.4.1 Individual Factors Gender.

A great deal of research has been done on the connection between gender and moral judgment, but, as with moral awareness, the results are mixed. In some studies women have been found to make more ethical judgments in a few studies, males were found to have more ethical judgment but in many other studies no relationship between gender and judgment was found. There is much less research on the connection between gender and moral intent, but the results are similarly mixed, with some studies finding that women have more ethical intentions and other studies finding no correlation. The research on the connection between gender and behavior is also mixed, but is skewed such that most studies have found that women behave more ethically.

This body of research is largely not driven by theory, but Ambrose and Schminke (1999) helpfully identified and labeled two views that encompass much of this research. First is the “alpha” view that there are gender differences in individuals’ orientations toward ethics; second is the “beta” view which holds that situations in organizations are strong enough to overwhelm any potential gender differences should they exist so that they do not impact business ethics. The former may be theoretically buttressed by Gilligan’s (1982) research suggesting that males and females are socialized differently with distinct gender tracts for moral development. The latter may be buttressed by Mischel’s (1968) research on the strength of situations. As is obvious from the preceding paragraph, there is empirical research to support each of these views, yet there is no theory to explain these mixed findings.

10.4.2 Nationality and culture

Numerous studies have demonstrated a connection between nationality and judgment . For instance, Haidt, Koller, and Dias (1993) found that Brazilians were more likely than Americans to deem actions as morally wrong when they were offensive, yet victimless e.g., a woman cutting up a national flag American or Brazilian and then using the rags to clean her house). Yet other studies have failed to demonstrate a connection. Though based on less research, the connection between nationality and intent appears to be stronger than that between nationality and judgment and the connection between nationality and behavior is also stronger than its connection with judgment. Generally speaking, the rationality behind the chosen nationalities and the theory supporting the proposed relationships has not been clearly articulated. As a result, the research on nationality does not present a very clear picture of the overall connection between nationality and ethics.

More recently, researchers have gone beyond nationality to study the underlying cultural differences. For instance, Parboteeah, Bronson, & Cullen (2005) measured various national-level culture variables in order to investigate how culture might be relevant to the justification of unethical actions. They found that performance orientation and assertiveness were positively related to the willingness to justify unethical actions, and that institutional collectivism and human orientation were negatively related to the willingness to justify ethical actions.

10.4.3 Ethical experience

Other research has focused on ethical experience, again a term intended to reflect variables that might affect one's experience with ethical dilemmas, such as religion, age, ethics training, and professional and educational experience. For the most part, religion appears to be positively associated with moral judgment. However, previous research has connected externally motivated religiosity religious commitment that is motivated by a desire to appear religious in the eyes of others to prejudice against minority groups. In terms of the connection between age and judgment, the findings are mixed with the bulk of studies showing either a negative relationship or few studies showing a positive effect. As of yet, age does not appear to be associated with intent, but it appears to be positively correlated with behavior although again the results are mixed. A possible explanation for such mixed results is that age has an effect across certain age categories or developmental stages, and significant findings are found only in those studies which capture these critical junctures.

10.4.4 Affect and arousal

As discrete emotion has recently gained attention in studies of the process of ethical decision making, we review this work in the subsequent section on process. There is less research, however, on the role of affect, a construct considered to be more diffuse and long-lived than discrete emotion. An exception is a study by Mantel (2005) in which she found that when participants had positive effect, they were more likely to make an ethical decision than when their affect was neutral. Mantel argued that positive affect led participants to think through their decisions more thoroughly, and thus to make more ethical decisions, but this explanation is inconsistent with research demonstrating an association between positive mood and more heuristic processing. While one might expect then that positive mood would be less closely associated with sound judgments and decisions more elaborate processing can lead to less accurate judgments and decisions under certain circumstances. Unclear from this research is whether positive affect is associated with more or less systematic processing of information regarding ethical situations and dilemmas; thus, conclusions about mediating processes cannot be made.

10.4.5 Values and orientations.

Researchers have found that values and orientations are related to judgments, intentions, and behavior. For instance, Schminke et al. (1997) found that those who subscribed to formalism were more likely to judge procedurally just organizational practices as being fair, while those who subscribed to utilitarianism were more likely to judge distributive just organizational practices as being fair. That is, formalists were more sensitive to and concerned with issues of procedural justice, whereas utilitarians were more sensitive to and concerned with issues of distributive justice. Sivadas et al. (2003) found that managers who subscribed to a philosophy of relativism (i.e., context-based ethics) were more approving of questionable sales practices than non-relativists.

10.5 Correlates of Moral Decision Making:

10.5.1 Situational Factors Issue intensity

As proposed by Jones (1991), the intensity of an issue has been associated with ethical decision making outcomes. For instance, Vitell et al. (2003) found that moral intensity was positively related to both moral judgment and intention within three different scenarios involving bribery, hazardous waste disposal, and an offensive advertising campaign. Similarly, in another scenario study, Nill and Schibrowsky (2005) found that to the extent that participants perceived moral intensity, they were more likely to make an ethical decision by reporting more accurate sales projections for a new product rather than inflating the numbers so as to financially benefit their company.

10.5.2 Ethical infrastructure.

The decision context in which individuals find themselves is also relevant here, and as noted earlier, Tenbrunsel et al.'s (2003) concept of the ethical infrastructure, which includes organizational climates, informal systems, and formal systems relevant to ethics, is a helpful way to think about the decision context. They argued that the components of the infrastructure are difficult to understand and evaluate in isolation from one another because the stronger elements the ones that cannot be seen like climate and informal systems impact the effectiveness of the weaker elements like formal communication, surveillance, and sanctioning systems. In other words, they argued that the components reflecting the "true" expectations and values the way that things are *really* done will have a greater influence on ethical outcomes within organizations than the more "surface" components like written rules as the former is more likely to be internalized than the latter (cf. Weaver & Treviño, 1999). Further, they argued that the components interact, making it difficult to predict the effect of one component without considering the others.

Indeed, the research in this area, which has largely looked at the components in isolation from one another has yielded mixed results. Interestingly, however, the connection between codes of ethics and behavior is less mixed than that between codes of ethics and judgment or intention, with many of the studies on behavior showing a positive correlation . Finally, some studies have focused on the positive correlations between the pressure to do wrong and unethical behavior. Research on the role of informal incentives to behave unethically.

10.6 Amoral Decision Making

If individuals are morally unaware of the ethical components of an impending decision, they will engage in what we have termed amoral decision making, a process in which the ethical implications of the decision will not affect the decision process but a decision with ethical implications will nonetheless result. Amoral decision making can produce an ethical or unethical decision, what we have termed "unintended ethicality" and "unintended unethicality", but what is important is that the decision makers are unaware that they are facing a decision with ethical implications. The decision makers are not amoral, but their decision process is, in that it does not encompass any ethical considerations.

Jones' (1991) article on moral intensity, despite being well-known for its focus on issue intensity as it relates to moral awareness, was one of the first to highlight the importance of considering an amoral decision process in addition to the moral decision process. He defined a moral agent as one who makes a moral decision, even if he or she does not recognize it as such. Thus, decisions with moral implications are made even if the agent does not realize the ethicality of the decision. Jones (1991) argued that decision makers faced with an ethical dilemma, whether they code it as an ethical decision or not, employ role schemata, a set of rules and norms that govern behavior. If the decision maker recognizes the decision as a moral one, the decision maker employs what is termed a "moral decision-making schemata". However, important for the discussion at hand is the acknowledgement that, when the moral dilemma is not recognized, there are other types of decision making schemata that are employed, such that "a person who fails to recognize a moral issue will fail to employ moral decision-making schemata and will make the decision according to some other schemata, economic rationality, for example" (Jones, 1991, p. 380).

The employment of non-moral decision-making schemata, what we will refer to as decision frames, is at the root of what we have termed the amoral decision process. Tenbrunsel and Messick's (1999) examination of the impact of surveillance systems on decision frames and cooperation is useful for illustrating decision frames in an amoral decision- making process. Their study, which investigated the role of sanctioning systems in a prisoner's dilemma, placed participants in the role of a manufacturer in an industry that emitted toxic gas. The participants were told that, in an attempt to mitigate potential lobbying for regulation by environmentalists to reduce the toxic gas, industry leaders had reached an informal agreement to run "scrubbers" 80% of the time so as to reduce emissions on their own. While costly to run the scrubbers, this agreement was described as one way to ward off the environmentalists and potential regulation. Participants were then asked whether they would adhere to the agreement or defect, with payoffs replicating a prisoner's dilemma such that the dominant individual rational choice was to defect, but the dominant group rational choice was to cooperate. To investigate the impact of surveillance systems on the decision, participants were either told that there would be surveillance and sanctioning systems to punish defectors or that there would be no such system.

In addition to asking participants whether they would defect or cooperate, individuals in the Tenbrunsel and Messick (1999) studies were also asked to indicate the type of decision with which they were faced, including business, ethical, environmental, personal, legal or other. The results revealed that the perception of the decision frame varied and was influenced by whether a sanctioning system was present: without a sanctioning system, 55% viewed the decision as an ethical one and 45% as a business decision; however, with a sanctioning system, 74% viewed it as a business decision, 18% as an ethical decision, 4% as a personal, and 4% as a legal decision. The frames adopted, in turn, influenced behavior, with ethical frames leading to more corporate behavior than business frames. These results provide evidence that decision frames help to understand behavior, and that they are not a "given" but rather vary by the decision context. Amoral decision making occurs when a decision maker views the decision through a frame that is not an ethical frame, the adoption of which can lead to either ethical or unethical decisions.

The examination of a specific subset of amoral decision making, namely that which results in unethical decisions, is found in recent discussions of "bounded ethicality". Drawing from Simon's (1983) conceptualization of bounded rationality, Chugh et al. (2005) defined bounded ethicality as a set of decision processes that lead people to engage in behavior that is at odds with their ethical standards. In other words, this research area attempts to explain why it is that people, who desire to be ethical and see themselves as ethical people actually engage in unethical behavior. At the base of bounded ethicality is decision makers' lack of awareness that they are in fact making unethical decisions.

Examples of bounded ethicality are plentiful, including unintentionally over claiming credit, discounting the future, and falling victim to conflicts of interest. Failing to recognize the overly positive views we hold of ourselves, for example, may lead us to over claim credit for group work. Research on implicit attitudes clearly illustrates how racist and sexist behavior can occur without the decision maker's awareness. Wade-Benzoni (1999, 2002, 2007) has documented the multiple ways in which we unknowingly overly discount the future and, in doing so, harm future generations. Moore, Tetlock, Tanlu, and Bazerman (2006) summarized the evidence that highlights our lack of awareness of conflicts of interest that we face, conflicts that result in decisions that lead to corrupt behavior.

Bounded ethicality, which incorporates research on how *un*ethical decisions are made without moral awareness, represents a subset of amoral decision making, which more broadly includes both ethical and unethical decisions made without moral awareness . To understand whether amoral decision making results in ethical or unethical decisions, one must understand the type of frame adopted. Research on decision frames indicates that the processing that occurs within frames is unique to the specific frame through which the decision is viewed. In their investigation of sanctioning systems and cooperation described earlier, Tenbrunsel and Messick (1999) found that individuals who saw the decision as an ethical one were unaffected by the strength of the sanctioning system, but individuals who saw the situation as involving a business decision were affected, such that higher sanctions led to more cooperative behavior. As Tenbrunsel and Messick (1999) argued, "a business frame produces a calculative cost–benefit process in which cooperation rates on the strength of the sanction" (p. 700); an ethical frame produced no such calculation.

While specific to the study of cooperation in a prisoner dilemma game involving sanctioning systems, these results offer insight into the amoral decision-making process. Understanding whether ethical decisions will be made during such a process, when the decision maker is ethically unaware, involves understanding what frame has been adopted and what processing occurs within that frame. If, for example, a business frame has been adopted, decisions will be driven by whether or not they make good business sense: an ethical decision will be made if it makes good business sense, whereas an unethical outcome will result if that makes good business sense. If a legal frame has been adopted, legality of the decision will drive the decision processes and resulting outcomes: if the law and ethics are in concert, an ethical decision will result but if the law and ethics are out of sync, then a legal but unethical decision will be made. For both examples, because the decision maker was unaware, the ethicality of the outcomes is produced without intentionality; the former decision entails “unintended ethicality” and the latter decision entails “unintended unethicality” .

10.7 Progress on Amoral Decision Making

In the sections on moral awareness and moral decision making, we identified progress that had been made in those areas. The systematic study of amoral decision making is itself progress as it recognizes that ethical and unethical outcomes do result even when the decision maker is unaware that they are making a decision with ethical implications. This research is relatively new, offering great promise in expanding our understanding of how ethical and unethical decisions are made. Thus, the progress that has been made is identified in the previous discussion, with hopefully much more to come.

10.8 Ethical Models

Several theories developed over the years.
Theories offer benchmarks to set standards
They help develop the basis for normative judgment
These theories are not followed by business theorists, Reasons

Ethical theories and their relevance to business research are not easily understood by business theorists
Ethical theories are difficult to put under practice

Some writers have developed models of professional standards, based on some of the theories

- Three most prominent models, used more than any other models are
- Rights Theories
- Justice Theories
- Utilitarianism

10.8.1 Right Heory

Advocated by Emmanuel Kant and John Locke

- Stress on Personal Rights and importance of property rights
- Both proponents focused on the entitlement of individuals as persons with Dignity
- It held the view that ethical decisions should protect the legal and moral rights that an individual is entitled to
- Following rights were included -
  - Free Consent
  - Freedom of conscience
  - Privacy
  - Free Speech
  - Due Process

10.8.2 Justice Heory

Chronologically precedes Rights Theory

- Rooted in the age of Plato and Aristotle in the fifth century BCE
- Advocates that all person should be guided by
  - Fairness
  - Justice
  - Equity

- Impartiality

- In Modern context, all humans should be treated equally
- Unequal treatment should be on defensible reasons ONLY
- This is Impractical as no man is equal and comparing unequal as equal is unjust
- Thus, People should be treated equitably‟, i.e. Equality based on justice

10.8.3 Utilitarianism Theory

Ethical theory holds the view that an action is right if it maximizes utility or produces the greatest good for the largest number of people.

- Employs a teleological approach i.e. actions should be evaluated in terms of their consequences.
- A certain action might not produce the greatest benefit. But in the long run it will result in decisions that will lead to the greatest for the people concerned.
- Utilitarianism based decisions are unethical when
- Personal gains are involved.
- Inefficient outcomes.

10.8.4 The Virtue Approach

Ancient ethical concept, it advocates that ethical actions should be consistent with certain morally accepted virtues.

- It is not what is adjusted morally but also what is accepted to a mature person endowed with a good moral character.
- The importance is on external virtues that everyone would like to showcase and will be referred to as role models

10.8.5 The Common Good Approach

- Just like Justice Theory approach - was advocated by Greek philosophers.
- It draws attention to certain conditions, effective system of law and order, fire service, health care etc.
- The establishment and maintenance of these conditions are imperative to promote the overall welfare of the society

According to Ethicsts Velasuez, Cavanagh and Oberg, the decision should be based on the criteria of utility, rights and justice together. If in case the approach falls then it is considered unethical. Carol suggested an "ethics screen" which includes

- Ethical principles
- Ethical tests
- Standards based on the personal, organizational or the societal as per the case.

10.8.6 Ethical Decision Making With Cross Holder and Competition

Decision should be based on more important obligation between two or more conflicting obligations.

Actions that produce greater results or the less harm should be taken

10.8.7 The conflicts in ethical decision making

Ethical conflicts arise when disagreements or dilemmas are related to ethical principles, values, or behaviors within the organization. These conflicts may occur when there are competing ethical standards, differing interpretations of ethical guidelines, or conflicts between personal and organizational ethics.

Few examples for ethical conflicts are false accounting, sexual harassment, data privacy, nepotism, discrimination these are just some of the ethical dilemmas that happen in today's workplace. Many business owners and managers will deal with ethical issues at some point in their career0

10.9 Main effects of conflict

Causes and Outcomes of Conflict Organizational Behavior Increased stress and anxiety among individuals, which decreases productivity and satisfaction.

Feelings of being defeated and demeaned which lowers individuals' morale and may increase turnover. A climate of mistrust which hinders the team work and cooperation necessary to get work done.

Conflict. Finally, effective decision-making can be difficult because of conflict. Most individuals dislike conflict and will avoid it when possible. However, the best decision might be one that is going to involve some conflict.

Here are some tips to help you to avoid the conflicts in decision making …

1 Understand the problem. The first step to resolving a conflict or making a decision is to understand the problem clearly.

2 Communicate respectfully.

3 Explore solutions.

4 Negotiate and compromise.

5 Implement and evaluate.

6 Improve your skills.

7 Here's what else to consider.

- Conflict can be broken down into four types: interpersonal, intrapersonal, intergroup, and intragroup. These four types of conflict fit into two general fields: internal and external conflict.
- A conflict is a dispute between two sides that does not seem to have a clear method of being resolved. Characteristics of conflict include a person trying to overcome an obstacle, two individuals competing for the same desire, or two individuals seeking to achieve a similar outcome.
- A collaborative negotiation style is usually the most effective style for managing conflict and fostering productive long-term relationships; however, different conflict-management styles can be effectively applied to different phases and types of conflict in management.

Ethical decision making in business will be more complicated when it involves conflicting interest of various stakeholders.

- When this kind of situation take place it is important for business for balance the interests of its different stakeholders
- Different stakeholder groups are different priorities , for example
- Stakeholders expect the business to make a profit and receive a return on their investment.
- Employees requires good working conditions if they are to be retained
- Potential investors want to see evidence of how to company responds to environmental issues before committing money to the business.

- ❖ Customers expects reliable and accurate products
- ❖ Stakeholder conflicts arise when the need of some stakeholders groups compromise the expectations of others .

10.10 Summary

A review of the field of ethical decision making reveals the beginning of an interesting story that continues to unfold. There are several well-established models (Ferrell & Gresham, 1985; Hunt & Vitell, 1986; Jones, 1991; Rest, 1986; Trevino, 1986) that have guided much of the empirical work on ethical decision making, all of which assume that ethical decision making is a reason- based process. With their common premise, these theories largely converge on the basic stages of ethical decision making: awareness, judgment, intent, and behavior. As detailed previously, there is a great deal of empirical research that attempts to substantiate this basic process, as well as investigate the numerous individual and situational factors that may impact it.

More recent work, however, has begun to deviate from these well- established models by questioning their assumptions and forging new theoretical paths. Included in this research is that which has relaxed the assumption of moral awareness as a precursor to ethical decision making, such as that which argues that individuals faced with an ethical dilemma often make uneth- ical decisions that may be inconsistent with the decision maker's true intentions to make ethical decisions (Banaji & Bhaskar, 2000; Banaji et al., 2003; Chugh et al., 2005). Recent research has also questioned the premise that ethical deci- sion making is always reason-based. First, research by Messick and Bazerman (1996) suggests that decision-making processes can be riddled with biases. Second, research by Haidt and his colleagues (e.g., Haidt, 2001) demonstrates that moral judgments can be the result of a very quick, intuitive, emotion-based process, rather than a reason-based process. This question of whether our moral lives are guided by reason or emotion has led to some very interesting research that is less about investigating simple correlations between independent variables and ethical decision making, and instead focuses on investigating the *processes* that underlie ethical decision making. Promising work in this area includes that which focuses on stimuli that elicit either cognitive or emotional processing (e.g., Borg et al., 2006; Cushman et al., 2006; Monin et al., 2007) and that which focuses on dual processes by which cognitive and emotional systems work together (e.g., Reynolds, 2006a; Warren & Smith-Crowe, forthcoming).

As we stated in the beginning, our goal was less to confirm existing theoretical frameworks and more to understand what useful frameworks the field might be offering. Looking at the research in this area through this lens yielded several new insights that we believe contribute to our understanding of the field of ethical decision making. As discussed previously, our review first high-lighted two different camps of researchers: those who assume that moral awareness precedes moral judgment and those who argue that many ethically relevant decisions are made without the decision maker recognizing the ethical implications of such decisions. Researchers in each camp naturally argue for the importance of their own assumption, but as we assert, it is important to consider both in the study of ethical decision making. At least as important, though, is to consider the possibility of both ethical and unethical outcomes in each domain. Intentionality, while assumed within moral philosophy, typically is not systematically considered in other fields, such as social science (Trevino et al., 2006). By distinguishing and disentangling intention from ethicality, the typology of decisions intended ethicality, intended unethicality, unintended ethicality and unintended unethicality

we offered up in Table 13.2 highlights the importance of considering both dimensions simultaneously. Both moral decision making and amoral decision making can produce ethical and unethical outcomes. However, some of these cells, such as amoral decision making that produces ethical decisions, are noticeably empty (i.e., little research falls into these cells), rendering our understanding of ethical decision making incomplete.

10.11 Key Words

Ethicsts Velasuez, Cavanagh and Oberg

10.12 Self Assessment Questions

10.13 Reference

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LESSON-11
MORAL PHILOSOPHIES,

Structure

11.1 Introduction

It refers in particular to the specific principles or rules that people use to decide what is right or wrong. Moral philosophies are *person-specific*, whereas business ethics is based on decisions in groups or those made when carrying out tasks to meet business objectives.

Moral philosophies present guidelines for ―determining how conflicts in human interests are to be settled and for optimizing mutual benefit of people living together in groups,‖ guiding businesspeople as they formulate business strategies and resolve specific ethical issues.

Moral philosophy is the branch of philosophy that contemplates what is right and wrong. It explores the nature of morality and examines how people should live their lives in relation to others.

Moral philosophy has three branches.

One branch, meta-ethics , investigates big picture questions such as, "What is morality?" "What is justice?" "Is there truth?" and "How can I justify my beliefs as better than conflicting beliefs held by others?"

Another branch of moral philosophy is normative ethics. It answers the question of what we *ought* to do. Normative ethics focuses on providing a framework for deciding what is right and wrong. Three common frameworks are deontology, utilitarianism, and virtue ethics.

The last branch is applied ethics . It addresses specific, practical issues of moral importance such as war and capital punishment. Applied ethics also tackles specific moral challenges that people face daily, such as whether they should lie to help a friend or co-worker.

So, whether our moral focus is big picture questions, a practical framework, or applied to specific dilemmas, moral philosophy can provide the tools we need to examine and live an ethical life.

***11.2 Economic value orientation* is associated with values that can be quantified by monetary means.**

Idealism is a moral philosophy that places special value on ideas and ideals as products of the mind, in comparison with the world's view.

Realism is the view that an external world exists independent of our perception of it. A realist works under the assumption that humankind is not inherently benevolent and kind but instead is inherently self- centered and competitive.

Moral philosophy is the branch of learning that deals with the nature of morality and the theories that are used to arrive at decisions about what one ought to do and why. Much has been written about moral philosophy and the theories that support ethical decisions. One of the best, brief explanations of moral theories is found in Rachels and Rachels (2010).

If we want to discover the truth, we must try to let our feelings be guided as much as possible by the arguments that can be given for the opposing views. Morality is, first and foremost, a matter of consulting reason. The morally right thing to do, in any circumstance, is whatever there are the best reasons for doing.

I will draw heavily on Rachels and Rachels' work and briefly present only five moral theories: ethical egoism, social contract theory, virtue theory, deontological or Kantian ethics, and utilitarianism. These moral theories are largely unexamined within agriculture but, I submit, may be operative among those who practice agriculture. The chapter concludes with the one theory that seems to dominate resolution of moral dilemmas in agriculture. I will not make any attempt to say all that could or ought to be said about morality, moral philosophy, or moral theories. That is not the purpose of this book and others have discussed these things well.

A note of caution the encounter with meaning in ethics often cannot be controlled by the seeker of meaning. The seeker of scientific truth (what Chapter 1 describes as rational truth) pursues something that can be defined mathematically, and is publicly verifiable, literal, definitive, and precise. In ethics, there are no moral facts that can be raised up and offered to others in the same way. Meaning in ethical discussions, as distinct from scientific truth, comes about as a result of the application of reason in a relationship of openness and trust (Van Eenwyk, 1997, p. 79).

The relationship may seem to resemble a chaotic mixing in which those who seek meaning and what is experienced as they seek become so intertwined that a new symmetry, a new understanding, may come into being. For many, this may seem to move too close to the realm of personal truth or subjectivity, which, in science, is the least worthy of being called truth. But in moral philosophy and ethical decision making, the use of human reason to search for meaning is not just subjective. Invisible, beneath every moral decision, beneath every gut reaction or feeling about what is the right thing to do, there is a moral foundation a moral theory.

11.3 Philosophies used in Business Decisions

1.*Teleology.* Stipulates that acts are morally right or acceptable if they produce some desired result, such as realization of self-interest or utility.
2.*Egoism.* Defines right or acceptable actions as those that maximize a particular person‘s self-interest as defined by the individual.
3. *Utilitarianism.* Defines right or acceptable actions as those that maximize total utility, or the greatest good for the greatest number of people. Deontology. Focuses on the preservation of individual rights and on the intentions associated with a particular behavior rather than on its consequences.
4.*Relativist.* Evaluates ethicalness subjectively on the basis of individual and group experiences.
5.*Virtue ethics.* Assumes that what is moral in a given situation is not only what conventional morality requires but also what the mature person with a ―good‖ moral character would deem appropriate.
6.*Justice.* Evaluates ethicalness on the basis of fairness: distributive, procedural, and interactional.

11.4 Goodness Instrumental and Intrinsic

Two basic concepts of goodness are monism and pluralism.
Monists believe that only one thing is intrinsically good, and the *pluralists* believe that two or more things are intrinsically good.

Monists are often exemplified by hedonism—that one‘s pleasure is the ultimate intrinsic good or that the moral end, or goodness, is the greatest balance of pleasure over pain.

Moral philosophers describe those who believe that more pleasure is better as quantitative hedonists and those who believe that it is possible to get too much of a good thing (such as pleasure) as qualitative hedonists.

Pluralists, often referred to as non-hedonists, take the opposite position that no one thing is intrinsically good.

Instrumentalists reject the idea that:-
i. Ends can be separated from the means that produce them
ii. Ends, purposes, or outcomes are intrinsically good in and of themselves.

Goodness theories typically focus on the end result of actions and the goodness or happiness created by them.
Obligation theories emphasize the means and motives by which actions are justified.

11.5 Teleology (Consequentialism)

It refers to moral philosophies in which an act is considered morally right or acceptable if it produces some desired result such as pleasure, knowledge, career growth, the realization of self-interest, utility, wealth, or even fame.

Egoism defines right or acceptable behavior in terms of its consequences for the individual.

Egoists believe that they should make decisions that maximize their own self-interest, which is defined differently by each individual.

Enlightened egoists take a long-range perspective and allow for the well-being of others although their own self-interest remains paramount.

Utilitarianism is concerned with consequences, but the utilitarian seeks the greatest good for the greatest number of people. Utilitarian decision making relies on a systematic comparison of the costs and benefits to all affected parties.

Rule utilitarians determine behavior on the basis of principles, or rules, designed to promote the greatest utility rather than on an examination of each particular situation.

Act utilitarians examine a specific action itself, rather than the general rules governing it, to assess whether it will result in the greatest utility.

11.6 Deontology (Non-consequentialism)

It refers to moral philosophies that focus on the rights of individuals and on the intentions associated with a particular behavior rather than on its consequences.

Contemporary deontology has been greatly influenced by the German philosopher Immanuel Kant, who developed the so-called categorical imperative: ―Act as if the maxim of thy action were to become by thy will a universal law of nature.‖

Deontologists believe that individuals have certain absolute rights:

a) Freedom of conscience
b) Freedom of consent
c) Freedom of privacy
d) Freedom of speech
e) Due process

To decide whether a behavior is ethical, deontologists look for conformity to moral principles.

Rule deontologists believe that conformity to general moral principles determines ethicalness. is determined by the relationship between the basic rights of the individual and a set of rules governing conduct.

Act deontologists hold that actions are the proper basis on which to judge morality or ethicalness. It requires that a person use equity, fairness, and impartiality when making and enforcing decisions.

11.7 Teleological ethics

The third pillar of classical moral philosophy is the Greek philosopher Aristotle. Aristotle's moral philosophy is also challenged by artificial intelligence, but in ways that can serve as a guide toward a new ethical model that may be able to respond to the age of autonomous systems. Unlike his post-Cartesian counterparts, Kant and Mill, Aristotle's ethics help us understand what it is about being human that sets us apart from artificial intelligence. Aristotle argues that humans' biological natures create an ethical context for human life. Human intelligence, that is to say biologically based intelligence, is what Aristotle calls *teleological*, from the Greek word *telos,* which means "goal." Teleological means "goal directed." Everything that someone does deliberately, he or she does for some end or goal.

Getting up in the morning, going for a workout, attending a movie or a class, painting a house—all these activities are directed toward a goal. The individual may not have given a lot of thought to the goal and might decide to aim for a more suitable goal upon reflection, but overall human life is goal directed. Humans choose their goals for the most part because they think they are choosing good things. They might be wrong about what constitutes a good thing, but the foundation for Aristotelian ethics is found in the premise that people choose things because they seem to be good. As Aristotle (1999) famously says in the opening line of the *Nicomachean Ethics,* "Every craft and every line of inquiry, and likewise every action and decision seems to seek some good".

Moral philosophy is needed because humans are so easily deceived about what is good for them and need to actively study, reflect, and deliberate about the true qualities of intended goals. Furthermore, teleological human existence is grounded in the way humans are biological organisms. Biological existence is also goal directed. Children's bodies have the goal of growing to be adults. Mature bodies have the goal of being strong and capable of engaging in life's activities. Humans are born, humans grow, and humans (hopefully) flourish. This external process of biological growth is for the most part paralleled by an internal process of ethical growth. Humans hopefully learn good habits in childhood so that they do not hurt others and instead come to interact successfully with other people in families, communities, and states. Aristotle goes further and points out that parents naturally educate their children in these things. As these children grow, they optimally pay more and more attention to *why* these habits are important. Thus adults come to understand the principles behind good conduct and ultimately are able to exhibit good character in its fullest sense. This is the Aristotelian model of virtue.

Robots and AI cannot have a teleological existence in this biological sense. They can exhibit a programmed teleology and will perhaps one day work out a teleology of their own, governed by their own composition. If this happens, humans will have to ask them about their own views of ethics, as human ethical constructs will no longer apply to them. For now, I will stay with the paradigm that robots and AI are programmed entities, lacking a teleological context for the way they are goal directed. In this paradigm, artificial intelligences cannot make choices in the fullest sense that a human being can. Realizing this, their human producers grapple with endowing these entities with a teleology that reflects the human landscape. Brose (2019) asserts that the challenge of AI has always been identifying how to invest these intelligences with human intent.

As we accept AI partners into the human world, the ethical challenge lies in maintaining human moral agency as the authors of these devices' intentions. This idea that humans have the responsibility to reflect on the ends desired from our technological partners is compatible with Aristotelian teleology. Thus Brose (2019) argues in the context of autonomous weapons systems that the debate regarding these weapons should not be reduced to the binary terms of whether to use them or not. Such systems, Brose argues, perform certain tasks better than human beings, and thereby liberate human judgment to focus on desired ends and outcomes. This is an Aristotelian argument, suggesting that only human deliberative processes can effectively evaluate ends and goals. Other studies confirm the value of this approach.

11.8 Theoretical Background

The two dominant trends in moral philosophy, the deontological and the utilitarian, view impartiality as an essential demand of morality. Treating all people equally, and avoiding discrimination against people from different groups unless there is a very good reason for it are perceived as a cornerstone of morality. There is broad agreement on this point and no need to elaborate.

Nevertheless, some philosophers have pointed out that impartiality should not be taken to extremes. This view is applied not only to partiality toward oneself, which is often presented as a condition of personal autonomy, but also toward one's family and friends; thus, the ground is prepared for allowing partiality toward a more distant, larger group. This view highlights our special obligations to the members of our own group and the positive values that come into play when we are partial toward a person of our own group the solidarity and loyalty that are thus manifested. On the face of it, the disparity between these two views toward partiality is unbridgeable.

This disparity is expressed in philosophical deliberations on patriotism. MacIntyre (1984) distinguished between two different concepts of morality: Universal morality, which demands that the individual make judgments from a vantage point that is detached from the one at which he is situated; and particularist morality, which emphasizes personal attachments and imbues loyalty to the nation with moral meaning. MacIntyre adopts an extreme particularist approach, arguing that true patriots are those who may abandon impersonal moral claims and support their own group out of loyalty in the case of a conflict between the two. Other communitarian philosophers, who also stress the moral status of social belonging, may not go as far, but they also underscore values involving loyalty to a group. In recent years, several attempts have been made to reconcile the apparent conflict between these two points of departure.

The issue of partiality has not been studied in psychology from the moral point of view taken here but it crops up in studies on such issues as loyalty to ones group, discrimination, intergroup attitudes, and the like. This research has revealed peoples strong tendency, expressed in judgments, feelings, and behavior, to favor in-groups and discriminate against out-groups. Much of this research was carried out in the wake of World War II and was directly or indirectly inspired by the study of the "authoritarian personality". It is only natural that this work was guided by a negative attitude toward national partiality, and almost completely ignored the element of group loyalty. Partiality behavior was generally perceived as an expression of hostility toward foreigners, of egoism, and ethnocentrism. True, Adorno and his colleagues distinguish between genuine patriotism and pseudo-patriotism, which they placed on their scale of ethnocentrism. However, this distinction all but disappears in subsequent research in this field.

A similar approach is found in the impressive research program of Tajfel and his colleagues (1981). One of their major findings was a pronounced tendency to show partiality toward one's own group even when that group was "minimal," being based on an experimenters arbitrary allocation of the subjects to two groups. This research program culminated in a well-developed theoretical framework, which is supported by numerous sophisticated studies. It was found that people not only tend to award more benefits to their own group but also try to enlarge the gap between their group and the other group at the price of forgoing benefits. A central theoretical argument of this approach is that discrimination against the other group has the aim of enhancing the subject's self-esteem through his group identity. The program thus focused on one side of partiality behavior discrimination against the other group. This focus is encouraged by the experimental paradigm of the minimal group, where the subject has no historical, cultural, or emotional connection with the group to which he was allocated. Belonging to such a group cannot thus be an element in the individual's identity. In such a situation, partiality behavior obviously cannot be seen as having a good or desirable aspect. A later development of Tajfel's theory, the theory of social identity confers central status on social identity, as the name suggests. It thus paves the way for the idea of normative status for partiality behavior toward members of one's own group.

The other side of partiality, that of the needs fulfilled by being loyal to the group and giving expression to one's identity, has been a lively topic in social psychology for the past decade. Many studies of the self suggest the existence of a human need to maintain, affirm, and give expression to the self. These studies and the associated concepts did not focus on the issue of partiality; they are rather part of the overall research into the motivations of the self. Nevertheless, they are obviously connected with the issue of partiality. They suggest that a decision on whether to be partial may involve people's motivation to affirm and express their identity and not only, or necessarily, their hostility to outsiders or their striving for self-enhancement.

11.9 Normative Positions in Philosophical Ethics

Since the 1980s, mainstream moral philosophy has entered the discourse of development to a significant degree. Three kinds of questions can be identified. First, if development is about change from a worse state to a better state and this centrally involves the improvement of the lives of human beings, by what criteria do we measure that improvement: what is the good life? This has been the primary focus of discussion. Part of the debate is over the preferred terminology such as welfare, well-being, or flourishing, part of it over how to interpret these key concepts. But two further kinds of question arise: part of what makes a society move from a worse state to a better state is the general nature and quality of its social structure and relations, how human well-being is distributed in the society, what kinds of liberties and rights are in place, what kind of moral culture exists, what values of democratic participation are established, and so on. Third, ethical questions can be raised about the pursuit of development by a country in terms of its external relations to at least three things: the environment, future generations, and other countries in the world.

Aman's 1992 book *Ethical Principles for Development: Needs, Capacities and Rights*, based on a conference on the same theme a year before, reflects accurately the kind of involvement of moral philosophers in development thinking. Three of the main philosophical approaches are indeed those of needs, rights, and capacities. The needs approach, picking up on an earlier basic needs strategy (associated with Paul Streeten), stresses the importance of an account of needs, to be sharply distinguished from wants and luxuries in which to ground the priority of action to address extreme poverty. Interest in rights theories also has a dual purpose, of providing an account of the essential elements of human well-being, but also providing the basis for, in the words of Henry Shue, "the minimum demand of all humanity on all humanity". The capacities or, as it has generally come to be known, the capabilities approach has gained prominence in recent years. (Since 2001 the Human Development and Capabilities Association has been the center of much interest.) The approach found in the writing of the Indian development economist-cum-philosopher Amartya Sen has been given philosophical development in the writing of thinkers such as David Crocker and Martha Nussbaum, the latter giving it a neo-Aristotelian interpretation. The central concern is to map out the central capabilities that are developed and then exercised in "functioning's" in the range of things a person has "reason to want to be and do," and so provides an account of human well-being that, while placing sufficient emphasis upon physical well-being, also properly bring in psychological and social capabilities and functionings.

Another approach of importance in this debate is what can be called the Kantian approach, which stresses the fact that human beings are rational agents whose well-being is exhibited in the properly developed exercise of rational choice and autonomy. A prominent exponent, Onora O'Neill, argues that extreme poverty undermines the properly developed exercise of rational agency. Thus this approach gives a good theoretical basis for the thesis that helping the poor is essentially a matter of empowering them.

There are other approaches as well. For instance, utilitarianism can also provide a basis for identifying what the essential elements of well-being are and a rationale for the distribution of well-being in society. Similarly, a liberal theory such as that of John Rawls provides a relatively thin account of what human good consists in an account of the primary goods needed for this, along with principles for the distribution of these primary goods in society. What is perhaps striking about utilitarian and liberal theories is the fact that relatively uninformative accounts of what the good consists in are provided, as compared with the earlier mentioned accounts. The Utilitarian and liberal theories tend to go hand in hand with the economic growth paradigm. After all, if one thinks it is adequate to say that human well-being consists in getting what you want or exercising choice, then it seems self-evident that more wealth enables you to get more of what you want or to exercise more choice, so it is obvious that economic growth is desirable. It is this inference that much of the recent philosophical discussion precisely questions.

This survey of ethical theories is by no means complete. There are, for instance, certain religiously based ethics or various kinds of ecological ethics that press for a richer account of what (real) human well-being consists in, and hence of what constitutes real development.

It will be apparent that once the level of discussion engaged in is that of basic moral theories about the good and the principles of social order, the implications are not merely about appropriate criteria for change in developing countries, but apply equally to richer countries. Indeed, much of what motivates philosophical enquiry into the appropriate basis of social change stems from an unease about the priorities and commitments of rich countries themselves.

Of course, one source of that unease stems precisely from the relationship that rich countries have with poorer countries, in terms of their aid programs, but also much more significantly in terms of their wider economic relationships in trade and investment. For instance, if more aid should be given or if economic relations should be such as to benefit poorer countries more, this, it may be argued, requires a willingness to reduce economic growth in the North, or even question its dynamic altogether. Another source of unease about the economic growth policies of the North stems from a concern about the way of life in the North being too affluent, too materialistic, or too consumerist, and so there is a desire to consider more explicitly the essential values that should underlie policy in the North. A third area of concern that invites a re-examination of the basic values underlying development in the North stems from concern for the environment – protecting Nature now and the well-being of future generations – hence the immense interest in the ethics of sustainable development.

11.10 Relativist Perspective

Relativists use themselves or the people around them as their basis for defining ethical standards.

Descriptive relativism relates to observing cultures.
Meta-ethical relativists understand that people naturally see situations from their own perspectives and argue that, as a result, there is no objective way of resolving ethical disputes between value systems and individuals.

Normative relativists assume that one person‘s opinion is as good as another‘s.
The relativist observes the actions of members of an involved group and attempts to determine that group‘s consensus on a given behavior.

11.11 Virtue Ethics

A moral virtue represents an acquired disposition that is valued as a part of an individual‘s character.

Virtue ethics posits that what is moral in a given situation is not only what conventional morality or moral rules require but also what the mature person with a ―good‖ moral character would deem appropriate.

Virtue Ethics approach to business:-
a)Individual virtue and integrity count, but good corporate ethics programs encourage individual virtue and integrity.
b) By the employee‘s role in the community (organization), these virtues associated with appropriate conduct form a good person.
c) The ultimate purpose is to serve society‘s demands and the public good and to be rewarded in one‘s career.
d) The well-being of the community goes together with individual excellence because of the social consciousness and public spirit of every individual.

11.12 Justice
involves evaluations of fairness or the disposition to deal with perceived injustices of others. Three types of justice provide a framework for evaluating the fairness of different situations:-

i.*Distributive justice* is based on the evaluation of the outcomes or results of the business relationship.
ii.*Procedural justice* is based on the processes and activities that produce the outcome or results.
iii.*Interactional justice* is based on evaluating the communication processes used in the business relationship.

Justice Type	**Evaluations of Fairness**
Distributive justice	-Benefits derived -Equity in rewards
Procedural justice	-Decision making process -Level of access, openness & participation
Interactional Justice	-Accuracy of information Truthfulness, respect, and courtesy in the process

11.13 Kohlberg's model of cognitive moral development
1. *The stage of punishment and obedience.* A person in this stage will respond to rules and labels of good and ―bad in terms of the physical power of those who determine such rules.
2.*The stage of individual instrumental purpose and exchange.* The individual no longer makes moral decisions solely on the basis of specific rules or authority figures; he or she now evaluates behavior on the basis of its fairness to him or her.
3.*The stage of mutual interpersonal expectations, relationships, and conformity.* Here, an individual emphasizes others rather than him or herself. Although ethical motivation is still derived from obedience to rules, the individual considers the wellbeing of others.
4.*The stage of social system and conscience maintenance.* An individual determines what is right

by considering his or her duty to society, not just to other specific people.
5.*The stage of prior rights, social contract, or utility.* An individual is concerned with upholding the basic rights, values, and legal contracts of society.
6.*The stage of universal ethical principles.* A person in this stage believes that right is determined by universal ethical principles that everyone should follow.

11.14 Making Rational Decisions

A **decision** involves a choice between a set of alternatives. The key to the process of making rational decisions is generating the alternatives and then knowing how to select, or eliminate, them from the list. This method for making rational decisions was first proposed in 1981 by Kepner and Tregoe in *The New Rational Manager*.

11.14. 1 Advantages:

1. It provides evidence and support for how the decision was made
2. It works particularly well in complex or fuzzy situations
3. It is thorough and systematic
4. It relies on effective information gathering rather than preconceived ideas
5. Provides an effective technique for determining a route through the mist and securing commitment to it

11.14.2 Disadvantages:

1. It can be very time-consuming and resource-intensive, especially in fast moving situations.
2. It relies heavily on information that may prove difficult to gather.
3. It requires fairly strict adherence if the outcome is to be a rational decision.
4. It highlights the possibility that a rational decision may not be the right one.

11.15 Procedure

11.15.1. Define the decision to be made

Be clear on the exact decision that needs to be made. It may lead to the discovery that previous assumptions have muddied the water.

11.15.2. Establish the objectives

The objectives are the outcomes that you desire from the decision and should be made measurable wherever possible. It is not necessary to worry at this stage if there are apparent incompatibilities between some objectives. This stage involves consultation, information searching and checking.

11.15.3. Classify the objectives

Differentiate between the essential requirements and the desirable. The fundamental difference between wants and musts is that if one of the decision alternatives does not meet a must, then that option should be rejected.

11.15.4. Define the musts

To be a valid must, an objective should have a quantitative measure or an objective standard. Assign quantitative measures to the musts.

11.15.5. Define the wants

Examine the wants for importance and give a numerical weighting out of 10. The wants are not make-or-break points in the decision process like the musts. However, the more clearly defined they are, the better your decisions will be.

11.15.6. Generate the alternatives
With information requirements established, next seek and obtain the appropriate information.

11.15.7. Apply the alternatives to your requirements
The information or options obtained should be recorded for each alternative against each must objective.

11.15.8. Test the alternatives against the musts
Reject the options that do not meet the musts. If you do not wish to reject an alternative that has failed on musts or something else prevents your rejecting it, then either the musts are proving unsatisfactory or you are not adhering to the rational process. In either case, re-start at step 3.

11.15.9. Score the remaining alternatives against the wants
Score the remaining options against each of the wants in turn. The alternative that meets the want best should be scored highest and others allocated proportionate scores.

11.15.10. Multiply the weights by the scores
Weights should be multiplied by scores and the results added for each alternative.

11.15.11. Come to a provisional decision
The totals will enable you to come to a provisional decision.

11.15.12. Take a final decision
The analysis will not provide an automatic decision unless only one alternative meets all the musts. Where several alternatives have similar totals, it is particularly important to re-examine scores and weights and the evidence on which they have been based. It is not always necessary to use the entire process described above, especially for simple binary (yes/no) decisions.

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LESSON-12

INFLUENCE ON ETHICAL DECISION MAKING

Objective

Structure

12.1 Introduction
12.2 Consequential Framework
12.3 Duty Framework
12.4 Virtue Framework
12.5 Kohlberg's Six Stages of Cognitive Moral Development
12.6 Treviño's Interactionist
12.7 Ethical/Unethical Behaviour and Corporate Social Responsibility
12.8 How Literature has influenced Instrumentation and Methodology
12.9 Conclusion
12.10 Key Words
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12.12 Reference

12.1 Introduction

The first step in this part is to look at ethical decision making and the (often conflicting) forces that influence those decisions. The Encyclopaedia Britannica (Singer, 2018) defines ethics as follows: "Ethics, also called moral philosophy, the discipline concerned with what is morally good and bad and morally right and wrong. The term is also applied to any system or theory of moral values or principles." There is a perceived distinction between ethics and morals which can affect the weight of their influence on decision making within an organisation. Weinstein (2018) states that there is no meaningful difference between the concepts of ethics and morality, and although 76% of respondents to his paper said that there was a difference, there was no consensus on what the difference was. Spall (2019) on the other hand classifies ethics as being a societal or organisational guideline whereas morals are a more personal framework, "ethics are usually associated with a practical set of rules that are to be followed in a professional setting, such as a code of ethics in medicine, law, and business, whereas morals refer to an individual's personal principles". Critically, based on this distinction, business ethics within an organisation would be expectations established at a corporate, cultural level, while the morality of the decisions being made is driven by 9 the values of the individual. Based upon traditional normative ethical theories, the following frameworks for ethical thinking which can be applied to decision making were defined at Brown University in 2011. The Consequential Framework, Duty Framework and Virtue Framework for ethical decision making outlined below set the context in which the Treviño model will be assessed, although from the perspective of impact of corporate strategies on ethical decision making, it is the Consequential Framework which would be more directly applicable.

12.2 Consequential Framework

The Brown University paper presents the Consequential Framework as one that looks at the future effects of potential choices or courses of action. This framework takes into account the participants, those who are directly involved in the actions or affected by them. The focus is on achieving the most desirable outcome. Therefore by this measure the most ethical conduct is that which produces the best results.

However, any conduct that produces favourable results in the whole may have negative impact for some of those participants. Additionally, the results achieved may not align with those the actions intended to arrive at. In fact, a point of criticism is that achieving a favourable result through unethical behaviours can be argued to be ultimately ethical when the consequences are deemed to be so. The old adage, popularly attributed to Machiavelli, but with recorded examples going back as far as Sophocles in 4th Century BC, that the "end justifies the means" is one that theoretically belongs within this Consequential Framework. The end itself cannot be taken as a thing in isolation. "There may be several ends in one given situation" (Lamprecht 1920) so it's wrong to justify the means by selecting one particular end as more significant than another. Unless a means is intrinsically good, the desired end does not justify the means chosen.
The benefits of applying the Consequential Framework in ethical decision making can be evidenced from Porter and Kramer (2006) in their use of consequential reasoning in creating shared value. Their consequential reasoning puts the focus on the means to justify the ends which itself has limitations (Lee 2016)

12.3 Duty Framework

The Duty Framework of ethical decision making (deontology ethics) is based on the individual performing the duties and/or obligations they have in any given situation, and from this derive the ethical actions from what the participant should and shouldn't do.

In theory, this framework creates a set of guidelines by which, if an action is ethical it applies to every participant in a given situation, ensuring everyone receives equal treatment. According to Brown University (2011) "This even-handedness encourages treating everyone with equal dignity and respect." On the other hand, the framework expects the participant to adhere to the guidelines dictated them regardless of outcome. In this situation, the means may be ethical but the ultimate outcome even if unfavourable is divorced from it. The duty framework can be seen to cause harm in certain circumstances, as in when used by military or law enforcement actors to provide justification for participants "just following orders". The Milgram experiments of the 1960's and the subsequent 1971 Stanford Prison Experiment explored the moral disconnect of the actors from their actions when they perceived themselves to be adhering to an authoritative framework. That the adherence to duty is of itself ethical is the basis of Immanuel Kant's philosophy, as McCarty (1989) explains “In Kantian ethics, then, actions are morally good only if performed from duty”.

The juxtaposition of obligations from duty and the moral imperatives of the self, are opposing factors which are explored later in Treviño’s Interactionist Theory and relevant in terms of the impacts of the organisational culture on ethical decision making.

12.4 Virtue Framework

The Virtue Framework of ethical decision making is based upon attempts to define the positive (and negative) character traits which act as motivating factors of the participant in a scenario. The Virtue Framework looks at what the participant defines as virtuous/ethical behaviour and whether their actions would be virtuous in a given scenario. Virtue ethics, said to be originally propounded by Aristotle, derives from a person’s self-assessment of what sort of person they should be and how they should behave to be ethical. This ethical framework “believes that all of one’s experiences, emotions, and thoughts can influence the development of one’s character” (Brown University,2011). One of the major criticisms of Virtue ethics is that it depends upon a laudable role-model or a virtuous being to whom the participant aspires. This focus is on the ideal and not on the actions of the individual. What constitutes a virtue is also situational as it is dictated by the culture and circumstance. For example being quiet and servile were once considered as virtues for women; such thinking having no place in a progressive modern culture/society. Nussbaum (1999) argues that Virtue ethics has been subsumed into consequentialism and duty ethics, as the Aristotelian virtues are present in both philosophies. Brady (2018) counters however that Nussbaum’s theories are not just a realignment of Aristotle’s “virtues” being given as “an alternative, or addition, to “utility” or “duty”” but represent a whole new paradigm of virtue ethics.

12.5 Kohlberg’s Six Stages of Cognitive Moral Development

The author has determined that consequentialism is the most applicable ethical framework upon which, the impact of corporate strategies on ethical decision making, for the stakeholders in organizations will be assessed. One other ethical framework needs to be looked at first to properly contextualise Treviño’s Interactionist Theory of Ethical Decision-making in this paper.
The fundamentals of Treviño’s model are established against the backdrop of Lawrence Kohlberg’s 1958 model outlining the Six stages of Cognitive Moral Development. Kohlberg’s model, initially centred on the cognitive development of children, postulates that a moral reasoning is necessary for the development of ethical behaviour. The theory also states that this development takes place over six stages and suggests that the moral logic that develops is primarily focused on seeking and maintaining justice. Kohlberg uses “theories of political justice to support his claims of the moral adequacy of higher stages” (Puka 1991) so while his theory of moral development leads to a structured sense of justice, Kohlberg does not focus on morality as a driver. Instead he associates the principles of justice with each stage of development as they

present themselves, making the linkages between moral development and perceptions of justice in the individual less clearly defined. Flanagan and Jackson (1987) observed that "For Kohlberg the morally good person is simply one who reasons with, and acts on the basis of, principles of justice and fairness." This is borne out by Kohlberg's other writings, approaching moral development as a deontology based ethics. Kohlberg (1981) himself rejected the tenets of virtue ethics, deriding the view that personality is comprised of "cognitive abilities, passions or motives, and traits of character."

According to Kohlberg, his six stages are divided into 3 levels of 2 stages each of development as follows: Level 1: Pre-conventional level This level lasts in theory until around age 9 and is shaped by a perception of the consequences for ones actions.

Stage 1: Punishment/obedience orientation Behaviour is determined by consequences. The individual will obey in order to avoid punishment.

Stage 2: Instrumental purpose orientation Behaviour is determined again by consequences. The individual focuses on receiving rewards or satisfying personal needs.

Level 2: Conventional level At this level which would be commonly seen in adolescents, and is shaped by the acceptance of socially accepted norms of right and wrong. Individuals learn behaviour from their peers and role models.

Stage 3: Good Boy/Girl orientation Behaviour is determined by social approval. The individual wants to maintain or win the affection and approval of others by being a "good person."

Stage 4: Law and order orientation Behaviour is determined by Social rules and laws. This involves a more in-depth rationalisation by the individual, with ethical decision making being shaped by a belief that the rules and laws maintain a social order which should be preserved.

Level 3: Post-conventional or principled level Individuals at level 3 develop an understanding of more abstract moral principles but determine to live by their own reasoned set of ethical principles, while adhering to societal norms. General opinion is that many individuals never reach this level of abstract moral reasoning.

Stage 5: Social contract orientation Behaviour is determined by the individual's rights. Rules and Law are taken as open to be interpreted morally and not considered as absolutes. Depending on the scenario, there are exceptions to rules.

Stage 6: Universal ethical principle orientation Behaviour at this level is determined by the individual's own self-determined set of ethical principles, in line with the theories of Immanuel Kant. The principles at this level are abstract and universal in their application.

There are a number of problematic aspects to Kholberg's model based on the assumptions he made in its formulation. Critically, moral reasoning does not guarantee moral behaviour (Ellemers et al. 2019). Additionally, Kohlberg placed an overemphasis on the adherence to principles of justice in his model. The model itself, as observed by critics is also flawed, due to the gender, age and cultural bias towards the demographic he selected for his research subjects. With this in mind, advancing to Treviño's Interactionist Theory of Ethical Decision-making, it is valid to note that Treviño appears to have accounted for the weaknesses inherent in Kholberg's model before expanding upon it. She notes that his model only tests moral judgements which are limited to cognitions rather than behaviours. As such, it only measures what individuals think about particular moral dilemmas but does not measure how the individual would decide to behave in given scenarios.

12.6 Treviño's Interactionist

Theory of Ethical Decision-making Linda Treviño first published her Interactionist Theory of Ethical Decision making in organisations in 1986. The theory was heavily informed by Kohlberg's model of cognitive moral development, upon which foundations, her further research in business ethics would be developed. Trevino (1986) said of her model that it "combines individual variables (moral development, etc.) with situational variables to explain and predict the ethical decision-making behaviour of individuals in organizations".

She also outlined why an underlying need for the model existed. She had observed that prior to that point there had been a misalignment between ethical thinking and business practices, citing a tendency to "regard ethics as a branch of philosophy rather than as social science" and subsequently had the potential for business managers and academics to conclude that business ethics was a trivial or as she put it "a "Sunday school" subject" and therefore was not considered a subject meriting deeper investigation. The tendency to dismiss business ethics also, would lead others to conclude that "it is a matter of subjective preference about which no objective statements can be made".

While Treviño focuses on finding the driving forces behind good and bad ethical decision making, one of the flaws in the application of Kohlberg's theory that arises is referred to as the "moral judgment-action gap" (De Tienne, et al. 2019). This gap is the difference in the individual's behaviour between knowing what the right thing to do is, but their simultaneous wilful doing what they know is the morally wrong thing to do. Treviño attempts to find an explanation for the "moral judgementaction gap" which Kohlberg's model of moral development doesn't explain.

12.6.1 The Person-Situation Ethical Dilemma Treviño's (1986) model proposes that "ethical decision making in organizations is explained by the interaction of individual and situational components". The cognitive moral development stages, as proposed by Kohlberg are what fundamentally determine how a given person acts (reacts) when encountering a given ethical dilemma. It's proposed that a person's awareness/understanding of what is morally right or wrong, are insufficient to explain or even predict any ethics based behaviour or decisions by that person. At the real core of the ethical dilemma for Treviño, are the combination of external forces and "situational variables" that influence the persons own level of cognitive moral development, and this dictates a person's behaviour when faced with an ethical dilemma.

Treviño presents a number of factors that influence a person acting upon their cognitions of what is morally right or wrong. Separated between individual and situational factors, the three individual influences she presents; ego strength, field dependence, and locus of control, are explored further below. Thereafter is an examination of the situational influences upon the decision maker from their role; job context, reinforcement, relationships with colleagues, their hierarchy of authority and responsibility, and other pressures. The final situational influences explored are the organizational culture, and the characteristics of the work itself.

12.6.2 Cognitions – Moral Development after Kohlberg As cited by Treviño, past studies have shown increasing cynicism amongst respondents in relation to their peers' actual commitment towards business ethics. Brenner and Molander (1977) discovered that 80% surveyed were of the opinion that managers should behave according to high ethical standards but nearly 50% felt that managers did not do so. It was felt in the study, that the failure of managers to measure up to expected standards were due to, the pursuit of financial gain compounded by the "lack of reinforcement of ethical behaviour, competition, and a sense that only "results" are important to superiors". Consequential ethics was the area that respondents evaluated their peers under, this could partially be informed by this area being the one in which they felt those same peers had failed in. Treviño (1986) also cites a number of qualitative studies (Lincoln et al., 1982),(Carroll 1978), (Ferrell and Weaver et al. 1978), that paint a picture in which, managers felt both that they were more ethical than their peers in their respective organisations, and that they were under consistent pressure from those same peers to compromise their ethical standing to achieve the goals of their organisation. Although Treviño's consequentialism seeks to provide depth to Kohlberg's otherwise deontological framework, Torres (1998) argues that neither Kohlberg nor Treviño give weight in their models to individuals who may pursue ethical decisions "in order to lay the groundwork for some greater treachery ahead". Critically, such cognitions would not fit within the Treviño model because, it cannot be said that a decision whose consequence is personal advancement at the detriment of 15 others, can ever be considered as ethical in nature, if the deliberate decision is made, in full knowledge of the probable repercussions of the final outcome.

12.6.3 Individual Moderators Of the two deterministic factors that Treviño's model proposes have influence on the ethical decision making of a person, the first, Individual Moderators, she divides into 3 areas; Ego Strength, Field Dependence, and Locus of Control. It could be expected that the level of influence that each of these Individual Moderators would have on a person are likely to vary, depending on the ethical dilemma faced. However, these moderators individual strength of influence, or their weighting of influence compared to the Situational Moderators on a person's ethical decision making, cannot be fully gauged. This is because, even if all Moderators are taken as a constant, the level of moral development of the subject, and the ethical dilemma being faced, would still be variables in the equation.

12.6.3.1 Ego Strength Treviño's model explains Ego Strength as "a construct related to strength of conviction or selfregulating skills". An individual with a high level of ego strength are expected to be more rational, following their principles rather than being prone to act impulsively. By that determination, someone with high ego strength would be expected to more consistently cross the "moral judgement-action gap". Essentially, individuals with high ego strength know more often, not only the right thing to do, but would have the courage of their convictions to actually do the right thing also. Studies cited, such as Rest (1984) show people with higher ego strength are less inclined to cheat. However these studies are based on a very small sampling and couldn't be reliably considered to provide empirical evidence in support of Treviño's contention.

12.6.3.2 Field Dependence The Individual Moderator of Field Dependence is linked by Treviño to the level of cognitive moral development which the decision maker has attained. The point of reference for an individual's field dependence is what helps the individual determine the appropriate course of action in potentially morally ambiguous or otherwise challenging ethical dilemmas. Treviño offers that "in ambiguous situations, the actions of field dependent individuals will be more consistent with the information provided by the external social referent than will the actions of field independent individuals." Theoretically, the higher the level a person's cognitive moral development, for example as a Stage 5 or Stage 6 according to Kohlberg's model, the more likely they are to be field independent decision 16 makers and require less use of external social references to inform their behaviour. The previously mentioned Milgram experiments can provide a stark example of this, wherein an individual's decision making is affected by their understanding that they won't be held accountable for the consequences of their actions.

12.6.3.3 Locus of Control The Locus of Control referenced as an Individual Moderator by Treviño are based upon Rotter's (1966) scale of both internal and external factors, measuring an individual's perception of the extent of control they have over the events in their own lives. A person who believes in the internal control factors is more inclined to think their actions have a direct impact upon the eventual results. A person who believes more in the impact of external control factors, on the other hand, is inclined to think that the consequences are beyond their control. Treviño proposes this second category of individuals are less likely to take responsibility for the consequences of their ethical/unethical behaviour, than the former.

12.6.4 Situational Moderators The second of the two deterministic factors that Treviño's model proposes to have influence on the ethical decision making of a person, are the Situational Moderators. Rather than being focused on the level of cognitive moral development of the individual themselves, the Situational Moderators as described by Treviño are what could be broadly interpreted as environmental factors. Although she notes that an "individual's susceptibility to situational influences varies with cognitive moral development stage", these factors are arguably addressed as Individual Moderators and are separate to the Situational Moderators outlined here which have an influence in their own right on the ethical decision making of the individual. The first of these Situational Moderators explained is that of Job Context and Reinforcement Theory. The next Situational Moderator is Other pressures. These factors are ones which can be considered to contribute to the individual's cognitive moral development, which distinguishes them from the direct influence of the Organisational Culture and the Characteristics of the Work.

12.6.4.1 Job Context and Reinforcement Theory The job context is seen by Treviño as a moderator for the "moral judgement-action gap" of the individual, impacting as it does the relationship between knowing what is right and doing what is right. What is referred to as "Reinforcement theory" relies on consequentialism and offers the 17 argument that an organisation can dictate or reinforce the ethical and/or unethical behaviour of the individual in their organisation through a system of punishment and reward for the actions taken by said individual. Hegarty and Sims (1978) observed that the extrinsic rewards offered in return for higher profits due to unethical behaviour, in turn resulted in a significant increase in unethical behaviour on the part of the individuals in the study. This and other studies support the reinforcement theory that an organization can influence the ethical decision-making of individuals by identifying what actions will merit punishment or reward.

12.3.4.2 Other pressures Rest (1984) determined that the personal costs of ethical behaviour would impact upon ethical decision making. Pressures such as these make the person "more likely to defensively reappraise the situation". Influences like time pressure can diminish the individual's awareness of the needs of others. Competition for a scarcity of resources could also negatively influence an individual's ethical decision making (Staw and Szwajkowski 1975). Treviño is of the view that because the organisation is responsible for the social context where the behaviour happens, it is their responsibility to "provide a context that supports ethical behaviour and discourages unethical behaviour". Empirical evidence would indicate this is not practicable. 2.3.5 Organisational Culture Treviño defines Organisational Culture as "the common set of assumptions, values, and beliefs shared by organizational members". The organisational culture is something which influences the behaviours, thoughts and feelings of those working in an organisation. The organisational culture is also evident in habits, norms, and identity conveyed in the organisation. As a contrast between opposed organisational cultures, the thinking is that in a democratic organisational culture individuals can be encouraged to take ownership of their decisions, consider opposing views and overall promote a culture which can grow the individual's cognitive moral development. On the other hand, in a more authoritarian organisation with more rigid and hierarchical structures, it is considered that the individual's cognitive moral development is restricted.

12.6.5.1 Normative Structure The Normative Structure of an organisation represents the collective norms that guide its behaviour. As such, organisational members "share values and the goals, purposes and the beliefs of the 18 organisation". However Treviño states that in an organisation which espouses a weak culture, these values, goals, beliefs and purposes are not shared, as they are not clearly defined. Treviño therefore proposes that in a weak organisational culture, the individual is more likely to rely upon subculture norms for their guidance on ethical and unethical behaviours.

12.6.5.2 Referent Others and Obedience to Authority In addressing an individual's referents to others, Treviño's model cites a Zey-Ferrell, Weaver, and Ferrell (1979) study in which they suggest the primary influence among marketing practitioners on ethical/unethical behaviour, was the practitioners perceptions of the behaviour of their peers. To address this Treviño suggests organisations identify desirable referent others, who can positively influence the organisations ethical behaviour. In respect of obedience to authority, she also states that an organisations culture can influence ethical behaviour through firstly the way in which it defines "authority relationships" and secondly through the way in which it apportions who has responsibility for any consequences of actions. Once again, Milgram style experiments in this area are examples of where referent behaviours serve to absolve the individual of the morality of their decision.

12.6.5.3 Responsibility for Consequences The last influencing factor of the organisational culture described is responsibility for consequences. Treviño suggests that the individual in an organisations awareness of the consequences of their actions on others, and their acceptance of the responsibility for said consequences are both necessary conditions for influencing the individual's behaviour (Schwartz 1998). It is observed that an organisation may attempt to diffuse this responsibility for consequences by the promotion of external definitions of this responsibility based on hierarchal structures, jurisdictional authority, and formal role definitions. Essentially the consequentiality is mitigated by separating the decision maker from the consequences of their decision. The structure of this model puts the responsibility of ethical decision making by the individual as a decision, divorced from the responsibility of their organisation. However, as the individual is empowered to make decisions on behalf of the organisation, the line between Individual and collective responsibility in this model is not clearly separated.

12.6.6 Characteristics of Work The final Situational Moderator which Treviño identifies is the "characteristic of work. In her model, she proposes that work plays a significant role in the continued cognitive moral development of an individual. Specifically the two characteristics of work identified which she speculates may contribute to moral cognitive development are, role taking and the responsibility for the resolution of moral dilemmas.

12.6.6.1 Role-taking and the resolution of moral conflict Treviño defines Role taking as "taking account of the perspective of others". She suggests that an individual taking a central role in the communications and decision making of a given group within an organisation generates further such opportunities. She also speculates that individuals in these role taking positions are more likely to increase their cognitive moral development. A theory is not advanced on how the role-takers opportunities for cognitive moral development may differ, based on their position within a democratic or authoritarian organisational culture as discussed previously. In terms of the resolution of moral conflict, Treviño speculates that "individuals whose work holds them responsible for the frequent resolution of moral conflicts are more likely to continue to advance in cognitive moral development stage". While giving a broad example of ethical dilemmas faced by physicians she only gives select incidences where an individual, as a manager in an organisation would have the same persistent level of responsibility, one which could advance their cognitive moral development. In reality, most individuals in organisation can be held to account by their respective organisations adopted code of ethics. However, Treviño (1986) expressed the opinion that "research is inconclusive regarding effectiveness of the formal codes in changing attitudes or behaviour".

12.7 Ethical/Unethical Behaviour and Corporate Social Responsibility

Following consideration of Treviño's Interactionist Theory of Ethical Decision-making, specifically the Individual Moderators and Situational Moderators that influence the decision making behaviour of the individual in an organisation; the next consideration is how the resultant ethical and unethical behaviours interact with the organisations Corporate Social responsibility.

12.7.1 Profitability Vs Profit Maximisation

Beyond the influences on an individual's ethical decision making, there is the broader determination for the organisation as to whether ethical decision making must be encouraged or merely tolerated; whether for reputational considerations, or until such time as they can successfully ignore or discard ethical behaviours without negatively impacting their profitability. Ethical decision making is not in conflict with corporate strategies. Ghosh et al. (2011) explored why moral codes, public interests and social values needn't pose a threat to profit maximization of any organisation. Enderle (2009) conceptualised wealth creation beyond just profit maximisation. The strengths of this approach are explored by Kolstadt (2007) discussion on why organisations shouldn't always seek profit maximization. Northrop's (2013) paper exploring the assumptions underlying the distinctions between "profit maximization" and "making profit" arguably support the assumption that profit maximisation is less inclined towards ethical business practice within the organisation. It therefore allows less latitude for ethical decision making on an individual level, thus restricting the effective adoption of ethical practices.

12.7.2 Shareholder Vs Stakeholder theory

In terms of the normative claims of moral relativism between Shareholder and Stakeholder, a single, morally superior model of corporate governance should theoretically suffice for all organisations (West 2016). The burden of ethical decision making is apparently held to a higher standard for stakeholders in an organisation compared to the shareholders. The question exists, whether or not it is wrong to impose the same moral standards on different types of organisations when the standard of ethical decision making can vary greatly depending on their respective organisational cultures. Ingerson et al.'s (2015) discussion paper on whether stakeholder capitalism or shareholder capitalism is superior in advancing society and economy, adds theoretical evidence to both sides of this argument.

12.7.2.1 Friedman Vs Schaefer Vs Ackerman

Friedman's (2004) argument supports his 1962 statements that the Corporate Social Responsibility of an organisation is simply about increasing profits. Schaefer (2008), in his critical analysis explains that Friedman implies that shareholders of an organisation have no obligation to direct the organisations management to exercise social responsibility. Although this is a position which Friedman still maintains it is one against which Schaefer argues a convergent strategy, that being the stakeholder theory.

Schaefer puts forward that the "existence of a duty for corporations to exhibit social responsibility generally favours a stakeholder model of the corporation over a shareholder one." While Friedman holds the view that an individual in an organisation has no other social responsibility other than to serve the shareholders, Ackerman's (1976) model of Corporate Social Responsibility in contrast, emphasises the organisations internal policy goals and how they can be met in relation to the organisations Corporate Social Responsibility. In Ackerman's model, the manager of the company familiarises themselves with the most common social problems and then displays a willingness to take on projects aimed at addressing those problems. This position of doing the right thing for right reason is indicative of what Treviño (1986) describes in her Interactionist Theory of Ethical Decision-making.

Dobos (2011) in response to Schaefer, evaluates whether ethical decisions informed by Corporate Social Responsibility can be equally beneficial to both shareholder and stakeholder. It is inconclusive whether the shareholders goal of profits, and the stakeholders goal of a morally superior model of corporate governance, must exist mutually exclusive to one another.

12.7.3 Carroll's Corporate Social Responsibility Pyramid

Corporate Social Responsibility in an organisation is driven by their values. Organisations now not only feel responsible for the creation of wealth but also for social and environmental benefits (Zadek 1998). The public pressure for an organisation to become more socially responsible, in terms of the environment, labour standards and human rights, now heavily influence the strategic development of an organisation. This is a natural evolution of the Carroll (1991) model of the

Corporate Social Responsibility Pyramid. In Carroll's model the foundation strata was towards economic responsibility to be profitable. Built upon this are the legal responsibilities of the organisation, and above that the ethical responsibilities, to do the right thing. Finally, it is upon these ethical obligations for the organisation, where Carroll builds their philanthropic responsibilities.

12.8 How Literature has influenced Instrumentation and Methodology

During the literature review, the author has considered the ethical philosophies, before selecting consequentialism and critically evaluating the Kohlberg and Treviño models which inform the 22 research. The author has also considered criticism of some dominant corporate strategies whose adoption can create ethical dilemmas for individual decision makers within the organisation, although they do not necessarily need to. Through reading, the author has identified limited criticisms of the Treviño model and the moderators she proposes. This has guided the author's focus towards testing the moderators on the individual decision makers, more than towards the weight being brought upon them by the nature of the decision itself.

12.9 Conclusion

The author reviewed the current literature and its limitations in relation to their exploration of the significant moderators on individual decision makers within organisations. The focus when addressing Corporate Social Responsibility (Zadek, 1998), profitability (Enderle, 2009) or otherwise ethical decision making in an organisation (DeTienne et al. 2019), is almost entirely on what these challenges mean for the organisation. Any decisions, ethical or unethical in organisations are made by individuals levelled with that responsibility (Kapur, 2020) even in dictating the direction of corporate strategies.

To understand the impact being faced with ethical dilemmas have on the individual decision maker rather than the consequences experienced by the organisation, the primary objective of this study was to analyse the influences on the individual making the decision. The cognitions of the decision maker, the forces exerted by the individual moderators, situational moderators, and organisational culture as were defined in Linda Treviño's Interactionist Theory of Ethical Decision-making (1986) and have been analysed through empirical data gathering by the author. The research questions underpinning the objectives in this study were explored through this data gathering which facilitated beginning to address the gaps in the literature identified.

12.10 Key Words

12.11 Self Assessment Questions

12.12 Reference

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LESSON -13
GLOBALIZATION AND BUSINESS ETHICS

Learning Objectives

To Study Ethical Issues in International Business Practices
To discuss Global Values, Codes and Principles For International Business
To Learn Global Sullivan Principles of Social Responsibility of Business

Structure

Alice asked the Cat: "Would you tell me please which way I ought to go from here"?
Cat: "That depends a good deal on where you want to go to".
Alice: "I don't much care where".
Cat: "Then it doesn't matter which way you go".
(Lewis Carroll, Alice in Wonderland)

The above conversation between Alice and the Cat is very relevant for the businessman who wants to venture into international business. Success in international business needs proper direction, aim and focus. It requires proper planning for products, places, prices and presentation. In the days of globalization since the 1980s, most of the companies are going global and virtually there is now the end of geography. The global economy has enormously expanded to the tune of $ 35 trillion and is being operated by more than 100,000 multinational corporations (MNCs). The world is more flat now and technological and communication gap and information asymmetry are fast disappearing. Abundant capital flows across countries are also creating opportunities to go global in search of a lucky break for business. Some developing countries, like Brazil, Russia, India and China (BRIC countries) are doing better than other developing countries in international business.

The Schumpeterian theory of innovation is becoming a reality now in less developed countries (LDCs) and they are navigating in the international arena for better business,

international market share and goodwill. Joseph Schumpeter has classified five different forms of innovation (See Ghosh, 2004, pp. 88–89):
● The introduction of new goods
● The introduction of new method or technique of production
● The opening of markets
● Exploration of new sources of raw materials, and
● The reorganization of an industry

Needless to add, all the aforesaid forms of innovation can and are growing through liberalization and globalization in recent years, and international business in this context has become extremely beneficial.

However, with the increasing complexity and volatility in the global business, the ethical issues, dilemmas and dissensions have also become very problematic. This chapter will discuss some of the major unethical issues in international business, the negative impacts of MNCs, cross-cultural problems and challenges, international codes, values and principles, and some general guidelines for doing international business.

Why is International Business Growing So Fast?

Several factors are responsible for the unprecedented growth of international business in the present century. Most of these factors are associated with the growth of globalization since the 1980s of the last century. Globalization stands for unification and integration of many factors the totality of which is immensely useful for the growth of international business (IB) (see Friedman, 2005).

Some of these factors and forces can be discussed here briefly as:

World trade has been growing very rapidly over the years. Regional trading nations are now joining the international trade game to expand their economies and to realize a higher rate of economic growth. International trade has been found to be contributing to economic growth in many stagnant or slow economies of less developed countries. Trade is still now regarded as the engine of growth. Over the last 25 years or so, world trade has grown more than three times.

The growth of trade is facilitated by the availability of capital through international sources like the World Bank, IMF and many other multilateral sources. The introduction of many facilities for the expansion of free trade and the abolition or minimization of tariffs has also significantly contributed to the expansion of global trade. The declaration of the WHO that it will create a framework of predictability and stability for the expansion of trade and commerce among nations is an additional factor giving incentive to less developed countries.

The expansion of the knowledge sector has been able to create a large stock of high quality workforce in many developing economies and it has been possible to carry on innovation, technological development and productivity gain and cost reduction. The increased cross country mobility of the high quality workforce has been responsible partly for the flow and cross-fertilisation of news ideas and innovation. All this has contributed to new product development through better processes and techniques.

● Technological development and its rapid spread over the countries has significantly changed the method and techniques of production. Also, production can now be done just in time. Better technology has produced several advantages including minimization of cost and time and better quality of products, which are all very essential for comparative advantage at the international level.

● Globalization has annihilated the distance, information asymmetry and communication gap. Thanks to the growth of information technology and internet, businessmen can, within no time, gather the information on trade volumes and values, currency values, trade facilities and barriers, potential demand, and so on regarding trade with a particular country, or about the trend in international trade. The efficiency of search engines and that of Google particularly has been a boon to IB across the world.

● The digital devices, mobile phones, email facilities, SMS, instant messaging, and so on are helping the trading people to take almost immediate decisions in the matter of trade. Digitalization of information technology is a significant contributory factor for the growth and exchange of knowledge about trade. Cross-country phone calls, which are an index of the degree of globalization, have enormously expanded these days.

● Outsourcing or subcontracting is now possible on a large scale among the manufacturing and trading countries. Thus, cheaper materials and inputs can be procured from any part of the world for the sake of the growth of export promoting and/or import substituting industries. This has contributed towards reduction in cost structure.

● The off-shoring of production through the relocation of manufacturing plant is now possible, and that makes possible the use of cheap local labour that significantly reduces operation costs. In this way, the product cycle can be divided into several parts and each one can be located to the area where raw materials and labour are cheap and abundant in supply.

● The supply chain system has also undergone a tremendous structural change. Several countries and world trading centres can now be connected in the supply chain to make time and cost savings possible.

● International demonstration effect has intensified the demand for foreign commodities and branded products. Globalization seems to have brought about some unifi cation and homogeneity in consumers' culture. The increasing demand for foreign goods as a result also of increased real per capita income has called for a sustained increase in trade and commerce.

For instance, the wave of Westernization that dominates the cultural transformation of the developing world has been increasing the demand for American pop songs, coke culture and American goods.

Most of the aforesaid factors have created a situation of horizontal convergence that has brought companies, customers and places much closer at the international level. Moreover, the success of the western capitalist countries in the realm of growth and development has attracted many Asian economies to the western model of capitalist development, and especially the East Asian countries like Malaysia, Indonesia, Philippines, Thailand and the Tiger economies have not only emulated the western model but have also been integrated with the western capitalist world. This has once again resulted in various types of trade interactions in these countries.

13.2 Ethical Issues in International Business Practices

There are many unethical practices in international business (IB). No one is very sure whether or not these practices are the causes or the effects of globalization, nor can one vouch for the fact that these practices are all brought about by MNCs in different countries. But in varying degrees, these unethical practices are still continuing. In what follows, an attempt will be made to briefly discuss some of the major unethical practices in IB in different countries:

Human rights violation is rampant in IB all over the world. These violations come in the form of abuses of foreign workers, abnormally low wages, use of child labour, inhuman working conditions in factories, long hours of work, violation of many basic rights to employees, maltreatment of women and child labourers, and the basic right to organize themselves to solve their own problems is denied to factory workers. The ILO estimates that not less than 250 million children in the age group of 5–14 years are working in developing countries.

Prevalence of racial and sexual (gender) discrimination is another very fundamental ethical issue in IB. Some scholars will consider this as a form of violation of human rights. Be that as it may, it is a hard fact that in many countries, labour is hired on the basis of race and religion. Thus, in

Saudi Arabia Hindu labourers are not generally favoured and, similarly, in Malaysia and Indonesia Chinese workers do not have good opportunities to be employed in factories. Even inside a country, son of the soil theory is always favoured. In Germany, Turkish immigrant labourers who have been working there since long are not given citizenship although the country needs such labourers.

In some countries, like in some Arabian nations, women are not hired for running businesses. In the Middle East, companies may simply refuse to negotiate with foreign saleswomen. Sexual harassment, moral harassment and mobbing are well-known in many countries including Europe (Human Rights Project Report, 2007). Minorities are also discriminated against in countries like Bangladesh, Sri Lanka and Indonesia, among others.

Bribery and kickbacks are normal practices in IB. However, in some countries, they more acceptable than in others. Bribery is an unethical practice because it breeds injustice and, in some cases, misallocation of resources. A study by Keston Joan has revealed that bribery payments are estimated to be $ 1 trillion in the world (Keston, 2007). The opinions of many consumers and businessmen in different countries think that bribery has increased over the years. Transparency

International which studies the prevalence of corruption in world countries found that in many countries 30 to 50 per cent of the consumers paid some form of bribe money in Cameroon, Cambodia, Paraguay and Mexico, and in many other countries less than 30 per cent was the bribe payment (Transparency International, June 2005). In 2007, the Transparency International found that one of the most corrupt countries in the world was Somali followed by Iraq, Haiti, Tonga, Uzbekistan, Chad, Sudan and Afghanistan. Officially, the United States' Foreign Corrupt Practices Act (FCPA) does not allow bribe to be given to foreign fi rms. However, it permits small grease payments to ministerial or clerical government employees. Although bribe is not permitted in many countries, small gifts which are genuine, transparent and does not attach any condition is permitted by the OECD principles.

Selling of harmful products. Although banned in many advanced countries, these are still continuing in LDCs. Genetically engineered products are banned in many countries and labelling of such food products has been made compulsory in USA and EU. The supply of tobacco products is decreasing in USA but their exports are increasing in LDCs. Baxter International's defective kidney dialysis filters killed ten people in Spain, in the 1970s, Nestle's infant formula proved to be fatal for children in Africa, and ConAgra Foods supplied raw beef in America that caused E. coli infection to many people. All these are common news items. Many countries are now trying to prevent the entry of such harmful goods to their countries.

Price discrimination being practiced in many countries is an unethical issue if it reduces competition and goes against the poorer section of the society. Many vitamins producing companies in USA and EU overcharge consumers, and it is a great business. Prices are increased through monopolization and gouging. Gouging is a situation where very high prices are charged from the customers for a limited period of time. Anyways, unfair prices are invariably unethical.

Dumping is another form of unethical international business practice where domestic consumers may be charged more and foreign customers are charged less for a limited period. It is unethical because competition is thwarted and prices are artificially set just to capture a vast market. Many LDCs have been experiencing dumping by food MNCs who are supplying food items to these countries and thereby ruining the ago-based producers and the agricultural activities.

The use of child labour is rampant in many developing countries, including India, Pakistan, Bangladesh and these labourers are exploited in drug selling, trafficking, prostitution and crime rings (ILO: 101 Report). Many international companies use child labour and pay them almost nothing for keeping the cost of production very low. Once, USA refused to buy Indian carpets because they were made by using child labour. The use of child labour is morally degrading and is a form of exploitation.

Violation of Intellectual Property Rights is unethical and costs every country substantial losses. It demoralizes the creators and innovators. According to one estimate, the loss to the United States on this account amounts to $250 billion per year and costs about 750,000 jobs (as quoted in Weiss, 2009, p. 252). India and China, among other countries, are in the US list of intellectual piracy (of music and software). Imitation of branded products is a regular phenomenon in LDCs. In India, China, Brazil and Africa, downtown streets are flooded with imitation articles like Adidas sneakers, Rolex watches, Ferrari jeans and the like at throw away prices. The Houghton Miffl in Publisher came to know that counterfeit textbooks are being published in India for world distribution (Ferrell et al., 2003, p. 257). A study suggests that the original innovators must make suitable changes in the products to make imitation practically difficult (Gupta and Wang, 2007) Pollution of natural environment is also an unethical business practice resorted to by many MNCs today. Most of the pollution is done by foreign fi rms in the name of business and development in LDCs. As international business interactions and industrial growth rate are going up,the volume and intensity of pollution are also increasing rapidly. In some cases, like in Mexico, anti-pollution laws are very stringent and legal sanctions are imposed on polluting fi rms. At present, Australia is regarded as the largest greenhouse emitter. Many countries are now implementing anti-pollution laws but some countries just do not pay any heed. For instance, Israel is accused of defying international convention by dumping toxic waste in the Mediterranean.

13.3 Multinational Corporations (MNCs) and Unethical International Business

Most of the instances given in the preceding discussion show the involvement of some MNCs throughout the world. This section gives a summary of some additional points relating to MNCs:

● MNCs transfer jobs from high wage to low wage countries. They use labour-saving devices and create unemployment. They bring down the wages to the minimum and practice what is known as race to the bottom. This is unfair to the uneducated labour force at the bottom.

Critics maintain that MNCs exploit the labour markets of host countries.

1. In many cases, they work in collusion with the local government and hire and fi re labourers whenever they want. In this way, in Myanmar, they used forced labourers to complete some national projects (Waldman, 2002)
2. MNCs also exploit the capital markets of the host countries. Their huge borrowing leaves the capital market empty, and local capitalists cannot borrow from these markets.
3. MNCs do not share the cost of social development in the host country.
4. MNCs create many negative externalities while carrying on production in less developed countries. However, they do not internalise the bad effects and do not pay any compensation.
5. Some consumers' products produced by MNCs for the less developed countries do not contain the label for consumers' safety and warnings. The Bhopal gas tragedy in India and Nestle's marketing of powdered milk in Africa and Firestone tyre crisis in Venezuela pose questions on the safety standard and controls by MNCs.
6. MNCs have also been found to be associated with illegal lay-offs, corporate crimes, exerting political influences in many countries (Ghosh, 1985). They have also been found guilty of supporting the racial regime of the then South Africa.
7. MNCs are said to have a control over their core technology which is never transferred.
8. MNCs, very often, exert considerable influence on a country's capital market and limit the local government's ability to access capital and resources. This process intensifies the dependency of the less developed countries on developed countries.
9. They also, through many types of scholarships, fellowships and grants, lure away the stock of high quality workforce from the developing countries. This phenomenon is often termed as skill drain or brain drain. This hampers the development process of the less developed countries.
10. The above discussion does not intend to blame MNCs across the board. We cannot deny some important and beneficial roles that MNCs have been making in developing countries. In this respect, the contributions of Nike, Cadbury, Patagonia and many others are undoubtedly praiseworthy.

13.4 Cross-Cultural Ethical Dilemmas and International Business (IB)

There are many types of dilemmas in IB. A serious dilemma in IB is the cultural dichotomy. The culture of the domestic country of the businessman may not be the same as that of the host country. For instance, the social and business culture in India and Saudi Arabia is not the same.

Body language also conveys different meanings in different cultures. For example, nodding of heads up and down may mean different things to different countries. In Albania, it means “no” but in USA, it means “yes”.

Religious taboos may also prove to be dangerous at times in the context of international business. For instance, a Hindu trader may feel offended when he is offered beef preparation for a dinner in a Muslim country.

The perception of time is also not the same in different countries. American fi rms put more values on promptness but Indian fi rms approach the concept of time in a relaxed way (Ferrell, et al. 2003, p. 240).

The cultural value of one’s own country may not be suitable for another country where one is doing business and the imposition of the cultural standard of the domestic country will tantamount to cultural imperialism which may not work at all in IB. The Americanization or what is called the Mc Donaldisation of culture has evinced a lot of protests from the cultural fundamentalists in many less developed countries (Ritzer, 2004). So, a further extension of business in this front needs to be done with more care and circumspection.

Another form of ethical dilemma is the acceptance of the principle, “when in Rome do as the Romans do”. In doing so, a businessman may be going against his moral standard or the established law and may even be committing some moral vices. Thus, if a Muslim business executive is asked to take wine in USA, and he drinks for the sake of business, he will not be able to excuse himself for the moral lapse if he is a staunch Muslim. Thus, cultural relativism may involve dilemmas in IB.

In many cases of IB, the basic problem is to resolve the ethical dilemmas. The global legal or regulatory standards are not so problematic as the ethical and cultural dilemmas. For instance, supposing laws in the host country are silent, in such a case, is it ethically rational to charge high prices for a monopoly product, or to resort to dumping, to exploit labour or to take advantage of the loopholes of laws? These are all ethical issues. Since these issues are crucial in IB, many organizations and institutions have formulated ethical values, codes and principles that can be followed by business people for conducting international business. These will be discussed in the last section of this chapter. It is now imperative to know a few Dos and Don’ts in IB

Do’s and Don’ts in International Business

It is instructive to bear in mind that in the case of successful international business, there is no universal standard that can be uniformly applied in all countries under all circumstances. Even international business ethics or morality does not provide standardized short-cut code of conduct for businessmen that can be followed universally. Very often, personal judgment and decision making skills are of immense value. Having said that, one can in a very general way, specify a few points that are to be followed in IB. The following are the twenty most important Dos and Don’ts for IB.

Do’s for International Business

● Under all situations, respect and protect Human Rights.
● Always follow the law of the land even if you do not like them.
● Respect and obey Govt. orders and codes of behaviour.
● Use an objective criterion for negotiations as far as possible.
● Use a solution (just like the Nash equilibrium) that will benefit all the parties involved. Nash equilibrium is a set of strategies such that no one of the participants in the game can improve his gain, given the strategies of other participants.
● Use peaceful process of settlement of disputes, if any.
● Understand the business environment, the people, the core values, culture, tradition and the society.
● Respect the religion of the country.
● Build interpersonal relationship with customers, employees and suppliers.
● Maintain honesty, integrity, accountability and transparency.

Don’ts for International Business
● Do not use dirty tricks for favourable negotiations.
● Don’t be rude, over-smart or opportunist.
● Don’t boast of your culture and trivialize the culture of the host country.
● Don’t cross the cultural limit and taboos.
● Don’t pollute the environment.
● Don’t pick up quarrels unnecessarily with the local employees. Grant them whatever is right.
● Don’t do any work that offends the people, employees, consumers and government.
● Don’t offer or accept bribes.
● Don’t practice discrimination in price fi xation and treatment of employees.
● Don’t produce or circulate harmful, unsafe and dangerous product.

13.5 Ethical Decision-Making in International Business

In making ethical decision, one needs to make a compromise. This may involve sacrificing, to some extent, your own absolutist ethical standard. You may have to accept the relative ethical values or standard. There are many styles of ethical decision-making. There are basically the following Five modes of ethical decision-making in IB. George Enderle (see Donaldson, 1989) talks about the first four methods given below. The last one is put forward by Donaldson.

1. The method of Ethical Relativism: The idea is to follow the ethical norm of the host country.
2. Imperialistic method: In this case, the fi rm applies its domestic ethical standards and norms.
3. A method of compromise: This involves the solution of an ethical issue on the basis of shared values of the home and host countries. The best solution is the one that brings a win-win situation for both the parties.
4. Cosmopolitan global method: In this case, the company follows the international/global standard. It does not bother about the host or home country standard.
5. Donaldson’s hyper-norms method: According to this method, for a good decision-making it is imperative to follow some universal absolutist norms consisting of some fundamental rights and duties. There are various such rights like human rights, right to personal security, right to have freedom, right to equality, and so on.

Having said all this, it is instructive to note that a good ethical decision-making should also take into account the universal ethical values, company mission/vision and professional ethics. A good international company should also care for economic responsibility of making a reasonable amount of profit, environmental responsibility of keeping it clean and social responsibility of enhancing the social welfare of host country people. These triple bottom lines are increasingly becoming popular among successful international business houses.

13.6 Global Values, Codes And Principles For International Business

In the face of many unethical international business practices and cross-country variations in business morality and ethics, many authorities have formulated certain global values, codes and international business principles. The basic purpose of the present section is to elaborate on a few of such values and principles.

13.6.1 The Caux Roundtable Principles (CRP)

The Caux roundtable principles were adopted in 1986 and were fi rst published in 1996. Some senior business executives of a few countries including Japan and United States organized a roundtable conference at Caux in Switzerland and adopted some principles. These principles are popularly known as the Caux Principles (for details, see www.cauxroundtable.org). These principles were formulated so that moral capitalism can work simultaneously with the neo-liberal globalization.

It is believed that the laws of market are necessary but are not sufficient for a responsible business conduct. Hence, some ethical principles are necessary for international business.

Three Ethical Foundations of CRP

- Living and working together for mutual advantages (Kyosei in Japanese language)
- Respect and protection of human rights and human dignity
- Respect for stewardship.

The following Seven Principles were formally adopted as CRP:

1. Respect shareholders beyond shareholders.
2. Contribute to the economic, social and environmental development.
3. Build trust by observing the letter of the law.
4. Respect local rules and conventions.
5. Support responsible globalization through open and fair trade, reform measures, and so on.
6. Respect the environment.
7. Avoid illicit activities in business.

Stakeholder Principles

Customers: Treat them well and provide them with the highest quality product and services. Assure respect for human dignity in marketing, advertisements and dealer network.

Employees: Take employees' interest seriously. Help improve their working and living conditions. Encourage employees for suggestions, new ideas and treat them with dignity. Provide safety in work environment and job security.

Owners/Investors: They deserve fair and competitive return on their investment. Provide them information on the company performance. Protect and show growth in the assets provided by them.

Suppliers: There should be a mutual respect with suppliers and sub-contractors. Maintain long-term business association and develop them to be equally competitive as the parent company in quality and competitiveness.

Competitors: Fair business competition will help enhance quality and value for customer money. This should also promote competitive behaviour in socially and environmentally beneficial activities.
Communities: Corporates have a responsibility to respect human rights, democratic institutions, society at large and support public policies and practices that promote human development though harmonious relations between business and other segments of society.

13.6.2 Global Sullivan Principles of Social Responsibility of Business

The Sullivan principles were developed by Leon Sullivan of General Motors in 1977. Many firms throughout the world now subscribe to the Sullivan principles. There are mainly the following eight such principles.

As a company which endorses the Global Sullivan Principles we will respect the law, and as a responsible member of society we will apply these principles with integrity consistent with the legitimate role of business. We will develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these principles throughout our organization. We believe that the application of these principles will achieve greater tolerance and better understanding among peoples, and advance the culture of peace (for details, see www.the sullivanfoundation.org). Accordingly, Express our support for universal human rights and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business.

Promote equal opportunity for our employees at all levels of the company with respect to issues such as colour, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude or other forms of abuse.

Respect our employees' voluntary freedom of association.
Compensate our employees so as to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.
Provide a safe and healthy workplace; protect human health and the environment and promote sustainable development
Promote a fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.
Work with governments and communities in which we do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being and seek to provide training and opportunities for workers from disadvantaged backgrounds.
Promote the application of these principles by those with whom we do business.

13.7 The Global Compact

The Global Compact is an international forum which works under the aegis of the United Nations.
The Global Compact was formed under the initiative of the then UN Secretary General Dr. Kofi Annan in July 2000. It was advised that companies operating internationally and also big corporations should be the members of Global Compact. The basic purpose of Global Compact is to make these business houses self-sufficient to resolve many problems that become apparent during the Period of globalization in the context of cross-cultural ethics

and problems. Annan hoped that a proper observance of Global Compact will ensure a more sustainable and inclusive global economy.

All global companies should set up their business in consonance with the philosophy of Global Compact so the corporate social responsibility and sustainable development become the critical core values of these companies (see www.unglobalcompact.org).

There are the following Ten Principles of the Global Compact:

13.7.1 Human Rights

1. Business should support and respect the protection of internationally proclaimed human rights.
2. Companies make sure that they have no complicity in human rights abuses.

13.7.2 Labour Standards

3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. The elimination of all forms of forced and compulsory labour.
5. The effective abolition of child labour.
6. Eliminate discrimination in respect of employment and occupation.

13.7.3 Environment

7. Business should support a precautionary approach to environment challenges.
8. Undertake initiatives to promote greater environmental responsibility, and
9. Encourage the development and diffusion of environment-friendly technologies.

13.7.4 Anti-corruption

10. Business should work against corruptions in all its forms including extortion and bribery.

The Global Compact is a voluntary initiative, but is has become popular amongst international business companies. More than 700 international companies have become its members and are doing well.

Apart from these three well-known principles and international codes there are some other values and codes of conduct formulated by many researchers and analysts. In this context, the following

Ten principles suggested by DeGeorge will be briefl y enumerated (DeGeorge, 1993, pp. 114-21).

13.8 DeGeorge's Ten Principles of International Business Ethics

Look at the problem from different perspectives like national (legal policy), international, industry and organizational perspectives. Use the technique of ethical displacement, if necessary. This means the searching for clarification at the higher level than the personal.

Use publicity against all types of unethical practices. This will generate pressures against immorality.

Use the rule of proportionality. This means that the punishment should be proportional to the harm done and the gain to be obtained.

Use the principle of accountability. The people who have done wrong or harm, should be made accountable. You should also be accountable for your action.

Be ready to pay the cost imposed on you by unethical people through their organized strategy.

Act with moral courage based on your values, ethical principles and morality.

If necessary as a method of retaliation, use restraint and apply minimum force.

Do not violate your norms and values and never use unethical means to win over a Situation. Use your moral imagination (or inner voice) while responding to an unethical opponent. Work jointly with others to create new social, legal and public institutions to respond to immoral actions and behaviour.

Having understood different global values, codes and principles, it needs to be emphasised that many international companies are now trying to understand the implications of these codes and principles and are showing more response and interest in global social responsibilities in carrying on international businesses, and some of these business houses are preparing their own core values that can prevent future ethical dilemmas and cross-cultural confl icts. These companies need to perform some balancing actions that will satisfy the local norms, universal international values, the business norms and the personal ethical standards.

The real problem remains in the operation or implementation of different types of values in actual practice and there may arise ethical confl icts because some operational terms do not have the same connotations. For instance, liberalization, globalization or democracy means different things to different people. Virtues like honesty and sincerity are adored by all but their implementation becomes problematic because their meanings may vary when contextualised under different situations or cultures. To cite just one example, pride is a great virtue in a Greek society but not in India.

A reconciliatory approach to decision-making is indeed pretty difficult in practice at the international level mainly because of the fact that cultures and values are inherently different in essence.

However, there is still some hope in the sense that there appears to be some agreement on the need for a set of core values for successful international business.

13.9 Summary

Success in international business needs proper direction, aim and focus. It requires proper planning for products, places, prices and presentation. In the days of globalization since the 1980s, most of the companies are going global and virtually there is now the end of geography. Several factors are responsible for the unprecedented growth of international business in the present century. Most of these factors are associated with the growth of globalization. Globalization stands for unification and integration of many factors the totality of which is immensely useful for the growth of international business. Many factors and forces including the unprecedented expansion of trade, capital mobility, technological development, expansion of knowledge, expansion of communication facilities, possibilities of outsourcing of men and materials have helped to expand international business.

However, there are many unethical practices in international business. None is very sure whether or not these practices are the causes or the effects of globalization, nor can one vouch for the fact that these practices are all brought about by MNCs in different countries. But in varying degrees, these unethical practices are still continuing. Some of these practices are: human rights violation, bribery and kickbacks, prevalence of racial and gender discrimination, the use of child labour, selling of harmful products, dumping, violation of intellectual property rights and environmental pollution. Some of the MNCs, no doubt, are engaged in unethical business practices.

There are many types of dilemmas in IB. A serious dilemma in IB is the cultural dichotomy. The culture of the domestic country of the businessman may not be the same as that of the host country. For instance, the social and business cultures in India and Saudi Arabia are not the same. There are indeed many cross-country differences in terms of religious taboos, body language and cultural perspectives. There is a tendency of some countries to impose their culture on other countries (cultural imperialism). However, the business people have to make a compromise in many instances and accept the truth-value of cultural relativism. They follow the dictum: when in Rome, do as the Romans do.

In many cases of IB, the basic problem is to resolve the ethical dilemmas. The global, legal or regulatory standards are not so problematic as the ethical and cultural dilemmas. For instance, suppose laws in the host country are silent, in such a case, is it ethically rational to charge high prices for a monopoly product, or to resort to dumping, to exploit labour or to take advantage of the loopholes of laws? These are all ethical issues. Since these issues are crucial in IB, many organizations and institutions have formulated ethical values, codes and principles that can be followed by business people for conducting international business.

In this context, seven principles have been formulated by the Roundtable Conference at Caux in Switzerland (Caux principles), eight principles are developed by Leon Sullivan of General Motors, ten principles formulated by the UN and ten principles of IB by DeGeorge.

Needless to say, many international companies are now trying to understand the implications of these codes and principles and are showing more response and interest in global social responsibilities in carrying on international businesses, and some of these business houses are preparing their own core values that can prevent future ethical dilemmas and cross-cultural conflicts. These companies need to perform some balancing actions that will satisfy the local norms, universal international values, the business norms and the personal ethical standards.

13.10 Key words

Human Rights

Business should support and respect the protection of internationally proclaimed human rights. Companies make sure that they have no complicity in human rights abuses.

Labour Standards

Business should uphold the freedom of association and the effective recognition of the right to collective bargaining, .The elimination of all forms of forced and compulsory labour.

Environment

Business should support a precautionary approach to environment challenges. Undertake initiatives to promote greater environmental responsibility, and Encourage the development and diffusion of environment-friendly technologies.

13.11 Self Assessment Questions

1. Enumerate the important reasons for the rapid growth international trade and business in recent years.
2. What are the evil effects of MNCs in developing countries?
3. Enumerate the major ethical issues in international business practices.

4. What ethical dilemmas a businessman faces in conducting international business? Suggest some ways and means to make ethical decisions in the context of these dilemmas.
5. What international guidelines, codes and principles can help a businessman to conduct business in an international environment?
6. What important factors will you keep in mind in doing global business?
7. Supposing there are cross-cultural confl icts, how do you propose to carry on international business

13.12 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON -14
FACTORS FACILITATING GLOBALIZATION

Learning objectives

To Learn the concept of global strategic management
To Discuss about the business ethics
To Study the Global Business Ethical issues

Structure

14.1 Introduction

We have described in earlier units that the environment in which international business competes include the different political, economic and cultural institutions found in nations. Our focus now shifts from the environment to the firm itself and in particular to the actions managers take to compete more effectively as an international business. We discuss how firms can increase their profitability by expanding their operations in foreign markets. We discuss different strategies that firms pursue when competing internationally, pros and cons of these strategies, the various factors that affect firms' choice of strategy and what practice firms adopt across various national markets.

14.1 Global strategic Management and Business ethics

Global strategic management is a subset of strategic management, any definition of global strategic management has to be built on basic definitions of strategic management, with an added explanation of the global dimensions. So what are these global dimensions? We use the three differences between international strategy and global strategy to define global strategic management. Global strategy dimensions can be categorized into three main dimensions: the configuration and coordination, standardization, and integration dimensions. The discussion that follows describes the three sets of dimensions in more detail.

The first major dimension of global strategy is coordination and configuration of the multinational firm's activities across countries. According to this view, global strategy is the process of exploiting the synergies that exist across different countries, as well as the comparative advantages offered by different countries (Zou and Cavusgil 2002).

Comparative advantages offered by different countries include resources that are inheritedsuch as a country's location, climate, size, or stock of natural deposits-and resources that are the subject of sustained investment over a considerable period of time-such as a country's education system and specific skills, its technological and organizational capabilities, its communication and marketing infrastructures and its levels of labour productivity.

According to the configuration and coordination perspective, multinational firms must configure their operations to exploit the benefits offered by different country locations, and coordinate their activities across countries to capture synergies derived from economies of scale and scope (Zou and Cavusgil 2002).

The standardization dimension expressed by Levitt (1983) defines global strategic management as the process of offering products across countries. According to this view, multinational firms pursuing a standardization strategy have a global strategy, while multinational firms pursuing an adaptation strategy should be referred to as implementing an international strategy. It is important to note that for strategy to be global absolute standardization across countries is not necessary. Rather, it suffices if core elements of the product or service are applied consistently across countries with minor adaptations to local peculiarities. For example, IKEA offers its standard products worldwide but makes necessary adjustments to satisfy local customers and meet different legal standards.

The third perspective is the integrations view. According to this view, global strategy is concerned with the integration of competitive moves across country markets (Zou and Cavusgil, 2002). Here, a firm makes competitive moves not because they are best for the particular country or region involved but because they are best for the firm as a whole. The ability of a firm to coordinate activities globally across markets depends on its ability to cross-subsidize, explicitly or implicitly, across markets. Yip (2002: 15) noted that in a global competitive strategy, competitive moves are made in a systematic way across countries, and that a competitor could be 'attacked in one country in order to drain its resources for another country, or a competitive attack in one country is countered in an-other country'.

Each of the above dimensions offers a partial explanation of global strategy. In this book we adopt a broad definition of global strategy that integrates the above three dimensions. We take it that the pursuance of one dimension does not preclude a multinational firm from pursuing another. A multinational firm may provide globally standard products, coordinate its activities globally, and integrate its competitive moves across countries simultaneously.

It must be noted that a global strategy is the process towards one, two, or all the three dimensions, as opposed to the extreme points of the perspective (Zou and Cavusgil, 2002). For a strategy to be global does not require absolute standardization across countries, complete coordination between countries, and fully integrated competitive moves.

14.2 Peculiarities of Global Strategic Management

A well designed global strategy can help a firm to gain a competitive advantage. This advantage can arise from the following sources:

Efficiency

Economies of scale from access to more customers and markets
Exploit another country's resources-labor, raw materials
Extend the product life cycle-older products can be sold in lesser developed countries
Operational flexibility-shift production as costs, exchange rates, etc. change over time

Strategic
First mover advantage and only provider of a product to a market
Cross subsidization between countries
Transfer price

Risk
Diversify macroeconomic risks (business cycles not perfectly correlated among countries)
Diversify operational risks (labor problems, earthquakes, wars)

Learning
Broaden learning opportunities due to diversity of operating environments

Reputation
Crossover customers between markets- reputation and brand identification

14.3 Value Creation

A firm's strategy can be defined as the actions that managers take to adopt the goals of the firm for most firms the goal is to maximize long term profitability. A firm makes a profit if the price it can charge for its output is greater that the cost of producing that output, profit (II) is defined as the difference between total revenue (TR) and total cost (TC) or II = TR – TC

Total Revenue (TR) are equal to price (P) times the number of units sold by the firm (Q)
Or TR = P * Q

Total cost (TC) are equal to cost per unit (C) times the number of units sold or LTC = C*Q
Total profit (II) is equal to profit per unit (II) times the number of units sold or II = II * Q
Profitability is a ratio or a rate of return concept. A simple example would be rate of return on sales (ROS) which is defined as profit (II) over Total Revenue (TR) or
ROS = II / TR

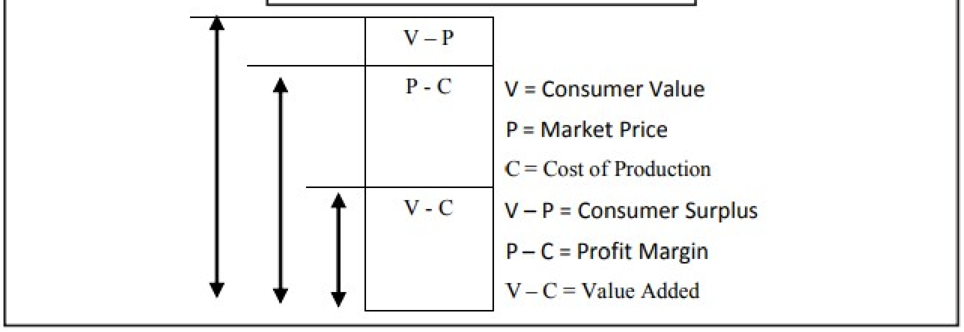
Thus a firm might operate with a goal of maximizing its profitability as defined by its return on sales (ROS) and its strategy would be the actions that its managers take to attain this goal. A more common goal is to maximize the firms return on investment (ROI) which is defined as ROI = II / I where I represents the total capital invested in the firm.
Two basic conditions determine firms profit (II):
1. The value customers place on the firms goods or and
2. The firms cost of production

In general the more value customers place on firms products, the higher price the firm can charge for those products. However the price a firm charges for goods and services is typically less than the value placed by the customer on those goods and services. This is because the customer captures some of the value in the form of what economists call 'consumer's surpluses.

The customer is able to do so because the firm is competing with other firms for the customer's business so the firm must charge a lower price than it could if it was a monopoly supplier. Also, it is normally impossible to segment the market to such a degree that the firm can charge each customer a price that reflects individual's assessment of the value of a product which economist's refer as 'customer's reservation price'

Table 14.1 Illustrates the concepts

Figure 15.1: Illustrates these Concepts



The value of product to a consumer is (V), the price that the firm can charge for that product given competitive pressures and its ability to segment the market is (P) and the cost of producing the product are (C).

The firms profit per unit sold (II) is P – C while the consumer's surplus is V – P. The firms make a profit so long as P>C and its profit will be greater the lower C is related to P. The difference between V and P is determined by the intensity of competitive pressure in the market place. The lower the intensity of pressure the higher the price that can be charged relative to V.

The value created by a firm is measured by the difference between V and C (V-C); the company creates value by converting inputs that cost (C) into a product on which consumer's place a value of V. A company can create more value for its customers either by lowering production cost (C) or making the product more attractive through superior design, functionality, quality and the like so that consumer's place a greater value on it and consequently are willing to pay a high price. This discussion suggests that a firm has high profits when it creates more value for its customers and does so at lower costs.

Strategy can be referred to as that which focuses on lowering production costs as a low cost strategy. Similarly, strategy that focuses on increasing the attractiveness of the product can be called as a differential strategy. Michael Porter has argued that low cost and differential are two basic strategies for creating value and attaining a competitive advantage in an industry. According to Porter superior profitability is earned by those firms that can create superior value and the way to create superior value is to drive down the cost structure of the business and/or differentiate the product in some way so that consumers value it more and are prepared to pay a premium price. Superior value creation as compared to rivals does not necessarily require a firm to have a lowest cost structure in an industry or to create the most valuable product in the eyes of the consumers.

14.3.1 Firm as a Value Chain

Firm can be treated as a value chain composed of series of value creation activities including production, marketing, sales, materials management, R&D, human resources, information systems and the firms infrastructure. We can categorize their value creation activities as primary and support activities (see Figure 14.2).

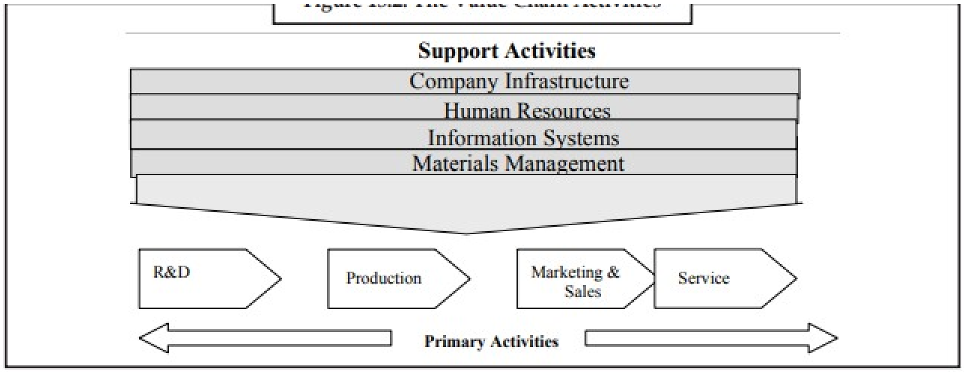


Fig 14.2 The value Chain Activities

14.3.2 Primary Activities

Primary activities have to do with the design, creation and delivery of the product; its marketing; its support and after sales service. In the value chain illustrated in figure 15.2 the primary activities are broken into 4 functions; R&D, production, marketing and sales and service.

Research & Development (R&D) is concerned with the design of products and production process. Although we think of R&D as being associated with the design of physical products and production process in manufacturing enterprises, many service companies also undertake R&D.

Example: Banks compete with each other by developing new financial products and the new ways of delivering those products to customers. Online banking and smart debit cards are two recent examples of new product development in the banking industry. Through superior product designs, R&D can increase the functionality of products which makes them more attractive to consumers (raising V). Alternatively R&D may result in more efficient production process thereby lowering production costs (lowering C). Either way the R&D functions and creates value.

Caution R&D is only associated with the design of products and production process and not the design of physical products and its process of production.

Production is concerned with the creation of good or service. For physical products production generally means manufacturing. For services such as banking or retail operations production occurs when the service is delivered to the customer (for example, when a bank originates a loan for a customer it is engaged in the production of the loan). The production activity of a firm creates value by performing its activities efficiently with lower costs (lower C) or by performing them into a more reliable and higher quality product (which results in higher V).

The marketing and sales function of a firm can create value in several ways. Through brand positioning and advertising the marketing function can increase the value (V) that consumers perceive in a firms product. If these create a favourable impression of the firms' product

14.3.3 Support Activities

The support activities of the value chain provide inputs that allow the primary activities to take place (see Figure 14.2). The materials management (or logistics) function controls the transmission of physical materials through the value chain, from procurement through production and into distribution. The efficiency with which this is carried out can significantly lower cost (lower C), thereby creating more value.

Similarly, the human resources function can help create more value in a number of ways. It ensures that the company has the right mix of skilled people to perform its value creation activities effectively. The Human resources function also ensures that people are adequately trained, motivated, and compensated to perform their value creation tasks.

Information systems refer to the normally electronic systems for managing inventory, tracking sales, pricing products, dealing with customer service inquiries, and so on. Information systems, when coupled with the communications features of the Internet, can alter the efficiency and effectiveness with which a firm manages its other value creation activities.

The final support activity is the company infrastructure. By infrastructure we mean the context within which all the other value creation activities occur. The infrastructure includes the organizational structure, control systems, and culture of the firm. Because top management can exert considerable influence in shaping these aspects of a firm, top management can exert shape the infrastructure of a firm and through that the performance of all other value creation activities within it.

14.4 Global Strategic Management Process

Modern corporations stretch around the world and are not bound by a single country. In this modern, global world it is increasingly important for managers to understand the global strategic management process. Understanding this process will help managers to choose markets, enter markets, and develop the firm in these new markets and to continually manage and develop the firm internationally.

Selecting Foreign Markets

The foundation of international strategic management is selecting the right markets to enter. There are a wide variety of factors to consider when choosing a market, including the size of the market, the strength of the market and local resources (including natural resources, capital resources and human resources). Managers must also be aware of the cultural, economic, geographic and administrative distances between countries because large distances can make doing business difficult.

Entering Markets

A good manager is highly strategic in his market entry strategy. The simplest way to enter a market is to open a wholly owned subsidiary. This can place a foreign firm at considerable disadvantage, however, because it means that the firm must quickly adapt to the local market without much local knowledge. Better options for gaining local knowledge include entering via a local acquisition or merger, either of which gives the firm access to local employees and knowledge.

Building the Firm

Once a company has entered a market, it must develop a strategic plan for growth. This involves building the local reputation and market share, but it also involves building local competencies. Local competencies are based on the locally available resources. For example, a firm's Indian branch might focus on the competence of information technology because the Indian market has a large population of IT engineers.

Continuous Management

Continually developing is an important part of the global strategic management process. Managers must continually monitor the market to determine if the market is still appropriate and if the firm is properly positioned in the market. When the market changes, the business must either adapt to the local changes or, in drastic cases, exit the market altogether.

14.5 Collaborative Strategies

Firms use four basic strategies to enter and compete in the international environment: an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy. Each of these strategies has its advantages and disadvantages. The appropriateness of each strategy varies with the extent of pressures for cost reduction and local responsiveness.

International Strategy

Firms that pursue an international strategy try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. Most international skills hence created value by transferring differential product offerings developed at home to new markets overseas Accordingly, they tend to centralize product development functions at home (e.g. R&D). However they tend to establish manufacturing and marketing functions in each major country in which they do business. But while they may undertake some local customization of product offering and marketing strategy, this tends to be limited. In most international firms, the head office retains tight control over marketing and product strategy.

An international strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack and if the firm faces relatively weak pressures for local responsiveness and cost reductions (as is the case for Microsoft).

Multi-Domestic Strategy

Firms pursuing a multi-domestic strategy orient themselves toward achieving maximum local responsiveness. The key distinguishing feature of multi-domestic firms is that they extensively customize both their product offering and their marketing strategy to match different national conditions. Consistent with this, they also tend to establish a complete set of value creation activities, including production, marketing and R&D, in each major national market in which they do business.

A multi-domestic strategy makes some sense when there are high pressures for local responsiveness and low pressure for cost reductions.

Global Strategy

Firms that pursue a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. That is, they are pursuing a low cost strategy. The production, marketing, and R&D activities of firms pursuing a global strategy are concentrated in a few favourable locations. Global firms tend not to customize their product offering and marketing strategy to local conditions because customization raises costs (it involves shorter production and the duplications of functions). Instead, global firms prefer to market a standardized product worldwide so they can reap the maximum benefits from the economies of scale that underlie the experience curve. They may also use their cost advantage to support aggressive pricing in world markets.

Did u know? Multi domestic strategy is best suited incase of high pressure for local responsiveness and low pressure for reduction in costs.

This strategy makes most sense where there are strong pressures for cost reductions and where demands for local responsiveness are minimal e.g. semi-conductor industry.

Transnational Strategy

Christopher Bartlett and Sumantra Ghoshal have argued that in today's economic environment, competitive conditions are so intense that to survive in the global marketplace, firms must exploit experience-based cost economies and local economies, they must transfer core competence within the firm, and they must do all of this while paying attention to pressures for local responsiveness.

Bartlett and Ghoshal maintain that the flow of skills and product offerings should not be all one way, from home firm to foreign subsidiary, as in the case of firms pursuing an international strategy. Rather, the flow should also be from foreign subsidiary to home country, and from foreign subsidiary-a process they refer to as global learning.

A transnational strategy makes sense when a firm faces high pressures for cost reductions, high pressures for local responsiveness, and where there are significant opportunities for leveraging valuable skills within a multinational's global network of operations. In some ways, firms that pursue a transnational strategy are trying to simultaneously achieve cost and differential advantages. In terms of framework they are trying to simultaneously lower C and increase V.

14.6 Ethics and Global Business

Ethics in a global management setting are needed to maintain economic balance. If a company is unethical, this can have effects beyond hurting the company. Unethical behaviour can affect consumer spending and result in other companies avoiding doing business with the offending company.

Ethics: Ethics are philosophical beliefs that deal with right and wrong, with doing the right thing. Ethics are composed of personal beliefs and cultural norms. Being ethical involves doing what is right, regardless of what benefits might be gained. In business, having strong ethical standards leads to having individuals and businesses believe in the overall trustworthiness of the business involved. When ethics are involved globally, it can lead to increased cooperation and commerce based upon parties trusting one another.

Education: To highlight the need for ethics in global management, business schools are incorporating ethics courses into their business curriculum. The Harvard Business School, for example, has had individual courses in ethics training since 1908, but other schools are providing ethics training to students seeking business degrees.

Perception: Global management needs to take ethics into consideration when it comes to public perception. If a company has a bad image due to unethical behaviour, that tarnished image can hurt the company and anyone that the company might be trying to help. In 2002, Zambia was having a famine and Monsanto donated corn to the country. But because Monsanto had an image for unethically modifying grains without telling the public, the donated corn was refused.

Rural Areas: When it comes to global management, one area in which ethical behaviour has been lacking is helping out rural areas. In India, which has issues with corruption

14.6.1 Global Business Ethical Issues

Large multinational companies affect a variety of stakeholders such as customers, creditors, investors, employees and the communities in which they operate. Responsibility to their stakeholders is demonstrated through strong environmental, social and governance (ESG) performance, sometimes described as corporate social responsibility. This can have positive impacts on profitability, by making the business sustainable and improving its reputation, but it can also increase costs. Cost cutting can lead to poor ESG performance.

Environmental Protection: Companies have a range of impacts on ecosystems through mining and extraction, the use of water supplies, waste disposal and pollution. Companies often operate in developing countries where regulations are weak. As a solution to this, attempts have been made to put in place market-based transparency mechanisms to encourage companies to report on their environmental impact. The Carbon Disclosure Project has encouraged companies to report on greenhouse gas emissions as well as water use and impacts. Strong environmental performance is often essential to having a sustainable business model, especially where companies risk degrading inputs, such as fishing stocks.

Corporate Social Responsibility: The activities of multinationals impact the communities where they operate, especially employees of the company and its suppliers. Problems can arise from an unequal distribution of power between employers and workers, especially in poor areas with high unemployment. This may result in unfair wages and poor working conditions, for example in sweatshops. Initiatives such as Fair Trade accreditation have arisen in response to these problems.

Governance Issues: Suppliers, customers, creditors, investors and employees have an interest in a company being governed responsibly, so that it is profitable and does not go bankrupt. Scandals such as the collapse of Enron demonstrate the problems that can arise where companies are not governed responsibly.

Responsible Investment: Responsible investment is a rapidly growing trend. Its core values are laid out in the UN Principles for Responsible Investment, and its essence is investment in companies with strong ESG performance. Investors are interested in this not only for ethical reasons, but because it can lead to increased returns through reputational and sustainability factor.

14.7 Summary

This unit attempts to give an overview of the functions in as simple manner as possible.

z A firm’s strategy can be defined as the actions that mangers take to attain the goals of the firm. For most firms, the pre-eminent goal is to maximize long-term profitability.

Maximizing profitability requires firms to focus on value creation. Due to national differences, it may pay a firm to base each value creation activity it performs at that location where factor conditions are most conducive to the performance of that By rapidly building sales value for a standardized product, international expansion can assist a firm in moving down the experience curve.

International expansion may enable affirm to earn greater returns by transferring the skills and product offerings derived from its core competencies to markets where indigenous competitors lack those skills and product offerings.

A multinational firm can create additional value by identifying valuable skills created within its foreign subsidiaries and leveraging those skills within its global network of operations.
The best strategy for a firm to pursue often depends on a consideration of the pressure for cost reductions and for local responsiveness.

Pressures for cost reductions are greatest in industries producing commodity-type products where price is the main competitive weapon.

Pressures for local responsiveness arise from differences in consumer tastes and preferences, national infrastructure and traditional practices, distribution-channels and from hostgovernment demands.

Firms pursuing an international strategy transfer the skills and product derived from distinctive competencies to foreign markets, while undertaking some limited local customization.
Firms pursuing an multi-domestic strategy customize their product offering, market strategy, and business strategy to national conditions.

Firms pursuing a global strategy focus on reaping the cost reductions that come from experience curve effects and location economies.

Many industries are now so competitive that firms must adopt a transnational strategy.
This involves a simultaneous focus on reducing costs, transferring skills and products, and boosting local responsiveness. Implementing such a strategy a may not be easy.

14.8 Keywords
Economies of Scale: Cost advantages associated with large scale production. First-mover Advantages: Advantages accruing to the first to enter a market.

Global Strategy: Strategy focusing on increasing profitability by reaping cost reductions from experience curve and location economies.

International Strategy: Trying to create value by transferring core competencies to foreign markets where indigenous competitors lack those competencies.

Multi-domestic Strategy: Emphasizing the need to be responsive to the unique conditions prevailing in different national markets.

Trans-national Strategy: Plan to exploit experience-based cost and local economies, transfer core competencies with the firm, and pay attention to local responsiveness

14.9 Self Assessment Questions

1. "The value systems and norms of a country can affect the costs of doing business in that country" Discuss.
2. What is not ethical in one country might be common in another? Despite this, the "when in Rome" approach to business ethics is dangerous. Do you agree?
3. In a world of zero transportation costs, no trade barriers and non-trivial differences between nations with regard to factor conditions, firms must expand internationally if they are to survive. Discuss.
4. Are the following global industries or multi-domestic industries: bulk chemicals, pharmaceuticals, branded food products, movie-making, television manufacture, personal computers, airlines travel?
5. Discuss how the need for control over foreign operations varies with the strategy and core competencies of a firm. What are the implications of this for the choice of entry mode?
6. Explain the relation between global strategic management and business ethics.
7. What are the peculiarities of global strategic management?
8. How can firm act as a value chain?
9. Differentiate between primary activities and support activities.
10. Write a short note on the various collaborative strategies

14.10 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON -15
INTERNATIONAL CODE OF BUSINESS CONDUCT

Learning objectives
To Discuss the Code of Ethics
To Learn the Process of Code of Development
To Design Element of a code

Structure

15.1 Introduction

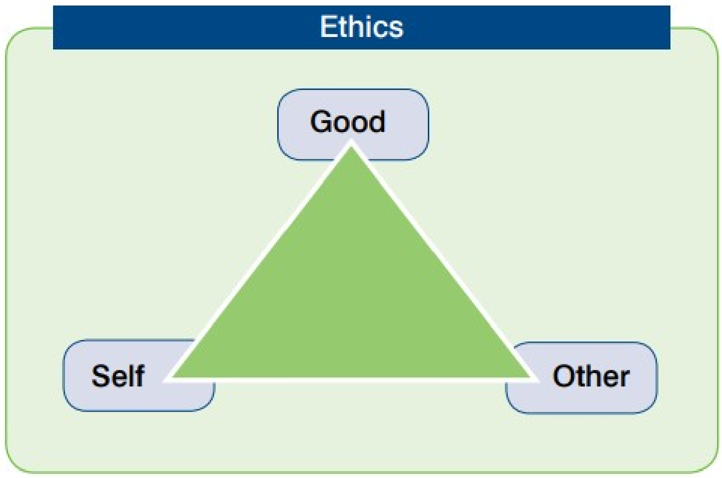
Codes of ethics have been around for a long time. Amongst the oldest and most well-known codes of ethics is the Hippocratic Oath that was first introduced in the 5th century B.C., and which still plays a prominent role in the healthcare profession today. It is also common for other professions to have codes of ethics as it is one of the defining features of a profession that members of a profession should abide by a code of ethics and conduct.

Although codes of ethics have been common in professions, they only appeared fairly recently in organizations other than professions. The reasons for the emergence of codes of ethics are quite diverse, but the growth in the size of organizations, the ever-increasing expectations that society has of organizations, as well as the globalization of organizations, all contributed to the large-scale emergence of codes of ethics in organizations.

Codes of ethics can be powerful instruments in setting ethical standards and cultivating ethical cultures in organizations. That explains why codes of ethics are often regarded as the ethics constitution of an organisation.

The concept ‘code’ can have many different meanings depending on the context in which it is being used. When the concept ‘code’ is being used in the context of a code of ethics, it refers to “a set of principles that are accepted and used by society or a particular group of people” according to the Cambridge English Dictionary.

Ethics can be defined around the three core concepts of the 'good', the 'self' and the 'other' (as displayed in the diagram below). Ethics then implies that one is ethical when one does not only consider what is good for oneself, but also consider whether what is 'good' for the 'self' is also good for 'others' (Rossouw & Van Vuuren, 2017:5). This understanding of ethics is well reflected in the golden rule that can be found across the world, which states that one should do good to others, as one expects others to do good to oneself.



Core concepts in the definition of ethics (Rossouw & Van Vuuren, 2017:5)

Figure 15.1 Core concepts of Ethics

When we combine the concepts of 'code' and 'ethics' in the term 'code of ethics' it refers to ethical principles (or standards) that guide the self in its interaction with others. A code thus gives content to what is considered as 'good' in the interaction between the 'self' and 'others'.

Although one can talk about the code of ethics of an individual, the focus of this handbook is on codes of ethics as they apply to organisations. Codes of ethics within the context of organisations, thus refer to the ethical principles or standards that an organisation adopts and abide by in its decisions and interactions with its stakeholders.

'Stakeholders' can be defined as those who are affected by an organisation's decisions and actions. These stakeholders can be broadly divided into two categories, viz., contracted and non-contracted stakeholders. Contracted stakeholders are those persons or parties with whom the organisation has formal contractual relations, such as shareholders, employees, suppliers and business partners. Non-contractual stakeholders are those persons or parties who do not have a formal contractual relationship with an organisation, but who are nevertheless affected by what an organisation does or says, such as communities, the natural environment, and future generations.

Codes of ethics set standards for both the organisation's interaction with its contractual and non-contractual stakeholders. Although an organisation has much more control over its contractual stakeholders than its non-contractual stakeholders, it is nevertheless also responsible for its impact on non-contractual stakeholders. Thus, a code of ethics sets ethical standards for interaction with both categories of stakeholders.

15.2 Why a code of ethics

The most fundamental reason for having a code of ethics is to provide clarity to all contractual stakeholders on the ethical standards that should prevail in the relationships and interactions between an organisation and its contractual and non-contractual stakeholders.

Employees and other contractual stakeholders all have their own pre-existing ethical values and standards when they contract with an organisation. It would be naïve to presume that these contractual stakeholders' ethical values and standards are aligned with the ethical values and standards of the organisation. Consequently, the onus is on the organisation to provide clarity on what ethical standards are required from all persons

Who act in the name of, or on behalf of the organisation.

A code of ethics lays down the ethical standards that all contractual stakeholders are expected to abide by. It is, however, important to emphasise right from the start that the fact that an organisation has adopted a code of ethics, provides no guarantee that all contractual stakeholders will abide by these ethical standards. Ultimately, a code of ethics is merely words on paper. Whether contracted stakeholders will abide by these standards will be determined by factors such as ensuring that contracted stakeholders are familiar with these standards, that they are motivated to follow the standards, that leaders talk and walk the code of ethics, and that there are consequences for adherence or non-adherence to these standards.

A second reason for having a code of ethics, is that all organisations encounter ethical challenges in the normal course of conducting their business. These ethical challenges can be described as grey areas. When it comes to ethical matters in an organisation, one can on the one hand distinguish between ethical matters that may be considered good, right, just, or acceptable, while on the other hand there are ethical matters that may be considered bad, wrong, unjust, or unacceptable. As indicated above, one of the most fundamental reasons for having a code of ethics is to clarify which ethical matters fall in the category of the good, right, just, or acceptable, and which ethical matters fall in the category of the bad, wrong, unjust, or unacceptable.

However, from time to time issues inevitably arise that do not fit neatly into either of the above two categories. These issues are grey and escape the easy categorization of being either acceptable or unacceptable. There is no immediate clarity whether these matters are acceptable or unacceptable. They are simply grey. Such grey matters are typically context-specific, or industry-specific, or might arise out of a unique set of circumstances that the organisation has never encountered before. A code of ethics is typically created, or adapted, to also provide clarity on such grey ethical issues. It is meant to dissolve the grey and to provide guidance on what conduct is acceptable or unacceptable with regard to these grey areas.

The grey ethical issues that an organisation might encounter are often difficult to anticipate or predict. It is exactly for this reason that the creation of a code of ethics can never be a once-off exercise. Whenever new or unforeseen ethical issues appear, an organisation should consider whether the existing code of ethics provides sufficient clarity on the grey issues at hand. Providing clarity on such grey issues might trigger a review of the existing code of ethics, or it might result in providing guidance on how the existing code of ethics should be interpreted or applied to the issue in question.

In some cases, it might even prompt an organisation to provide additional guidance on the ethical issue by formulating a policy or guidance document in addition to their existing code of ethics.

A third reason for having a code of ethics revolves around the issue of trust. Research by Edelman once more confirmed that two of the most important factors inspiring trust in organizations are competence and ethics. In the 2020 Edelman Trust Barometer it was found that ethics contributes 76% to the trust capital of organisations, with competence making up the remaining 24% of the trust capital (Edelman, 2020). It is therefore essential for organizations that are keen to bolster their trustworthiness, to communicate to their stakeholders that they are committed to being ethical organisations. One of the most prevalent ways that organizations use to communicate their commitment to ethics, is by making their codes of ethics and ethical values available to their stakeholders. Codes of ethics are therefore often designed and drafted by organisations in a manner that inspire trust among their internal and external stakeholders

A fourth reason for having a code of ethics has to do with external expectations or obligations. There often is an explicit expectation that certain organisations should have a code of ethics. In the USA, for example, the Sarbanes-Oxley Act not only require listed companies to have codes of ethics, but to also publish their codes on their websites.

Several voluntary corporate governance codes around the world also recommend that organisations should formalise their ethical standards in a code of ethics or conduct.

In the box below, the recommendation of the Fourth King Report on Corporate Governance in South Africa, namely, that organisations should have a code of ethics and make it available to stakeholders, is displayed

15.3 Contextualising codes within ethics Management

It was only during the 1990s that most organisations started to develop codes of ethics. Until then, few organisations actually had codes. Among the exceptions counts the Johnson & Johnson Credo that was developed in 1943. Those who had codes, however, rarely used their codes. Codes were mostly filed, initially in hard copy on some shelf, and later stored on the HR platform on organizations' intranet. Few organisations prominently displayed their codes, and even fewer offered training programmes around the codes' contents and use to new and current employees. In short, during the 1990s, bar a few exceptions, codes were merely words on paper and seldom achieved living document status.
Sparse and unsophisticated as they were, codes of ethics were, for many years, the only ethics management 'tool' at the disposal of organisations. Amongst other triggers, corporate governance guidelines and corporate scandals stimulated a rethink of codes.

Ethics management interventions, that often sprouted from governance imperatives, gave codes a new lease on life. Since then, codes have increasingly become an integral component of formalised ethics management initiatives.

The model for ethics management in organisations, as developed by The Ethics Institute, features ethics codes and policies as a prominent and indispensable step in the ethics management process (see diagram below).

The governance of ethics framework ©The Ethics Institute

Figure 15.2 Governance of ethics framework

As can be seen from the diagram above, some things need to happen before the drafting of codes and their contents become meaningful. The foremost task of those responsible for ethics management in organisations, is to assess the organisation's ethics opportunities and risks. Following that is the design of an ethics management strategy and ethics management plan. These are designed to ensure that (1) all identified risks are strategically accounted for and that they are mitigated and managed, and (2) that ethics opportunities are capitalised on and utilised as strengths. Only then does it make sense to formulate codes of ethics and other supporting documents such as ethics-related policies. The ethics strategy and plan determine the purpose, content and tone of codes that are subsequently developed or amended.

The risks, as identified, should be accounted for in the code and policies. This, in essence, determines the contents of codes and ensures content specificity, rather than having a wonderful, but generic code that may not be adequate to guide employees' and other contracted stakeholders' ethical behaviour.

Unfortunately, many organisations see the completion of the code as the final step in ethics management. The mere existence of the code neither triggers nor ensures ethical behaviour. Codes have to be utilised as vehicles for organisations' ethics management journeys. The code and its contents need to be 'taken to the people', be they employees or other contracted stakeholders. The spirit and content of the code need to be institutionalised or 'made real' for those that need to apply it. The institutionalisation of ethics in organisations is to a large extent dependent on the quality of the code and how its content and potential utility is communicated.

Thereafter, the effectiveness of code implementation, as key component of institutionalization, should be assessed. This happens by monitoring adherence to the code and its principles and prescripts. The extent and effectiveness of adherence then need to be reported to the relevant governance structures that were delegated with the responsibility of overseeing ethics management and the growth in maturity of the ethical culture of the organization

15.4 The purpose and process of code Design

The purpose of a code determines all subsequent design, content and implementation aspects. In this section the purpose, or reason for existence, of a code is analysed. Once the purpose of a code has been clarified, an organisation can proceed to a planned and structured process of code design. The rest of the section is devoted to an exposition on the leading practice in determining the purpose and process of code design.

The purpose of code design

It should be realised from the outset that clarity on the purpose(s) of a code will inform further decisions, such as:

• Code design process
• Code format
• Code contents
• Tone of the code

The code's purpose is determined by the need for the formulation of ethical standards in the organisation. Formulating the code for a specific purpose may be triggered by (1) an event that sparked the need for clarity on ethical standards, (2) the need to address occurrences of unethical behaviour, (3) a call by internal stakeholders for enhanced clarity on ethical conduct, (4) a directive from external stakeholders that the organisation enhances its ethics accountability, (5) a desire of an organisation to have a document that demonstrates the organisation's strategic ethical intent, or (6) responding to a need for a code review, which, among others, requires that the code's current purpose be emphasised more strongly, or be renewed.

The purpose of a code is formulated by obtaining an answer to the question – 'What is it that you want the code to do for the organisation?' That is, what do you want to achieve with the code? There could be multiple answers to this question and the following considerations may apply:

• Contributing meaningfully to the sustainable development of society and the environmental Aligning the organisation's operational standards to universally and constitutionally accepted expectations regarding human rights and dignity;
• Promoting adherence to standards of good governance;
• Adhering to legislation;
• Creating a clear and unambiguous common understanding of the ethical standards that are expected in the organisation;
• Creating a predictable environment;
• Promoting ethical behaviour;
• Preventing unethical behaviour;
• The need to enforce rules;
• Desiring to inculcate organisational values;
• Providing guidelines for the behaviour of stakeholders such as employees or suppliers;
• Reassuring stakeholders of the organisation's ethical stance and intent; or
• Mitigating potential legal action.

15.5 The process of code development

As far-fetched as the process described above may sound, it will ring a note of truth for many organisations. It is clearly a lesson on 'How not to design your organisation's code'. Every organisation's code should be unique to address its needs and account for potential risks.

A systematic design process needs to be followed since a code of ethics is 'the ethics constitution' of an organisation.

The purpose for which the organisation needs a code determines the code design process. Two opposite scenarios are presented to explain this notion:

Scenario 1:

Ethics risks have been identified as severe and pervasive, many transgressions occur, and the ethical culture of the organisation is fragile. To 'stop the rot' so to speak, code design might require swift and decisive action – the process of code design is allocated to a function in the organisation that is compliance-orientated, and a rules-driven document is commissioned. The code design process is executed in a unilateral way with no stakeholder consultation.

Scenario 2:

There is a pro-active need to produce a code that may contribute to a sense of coherence, positive transformation, relationship building and the establishment of a strong ethical culture. Code design is entrusted to a team in the organisation with an expectation that numerous stakeholders will be consulted to express their expectations of the code's purpose and contents, and a multilateral, multidisciplinary approach is followed.

There is little doubt that a code produced via the latter approach will contribute positively to the sustainable development of the organisation, as well as to the prolonged protection of its reputation. A code that is designed in a multilateral manner has a greater chance of attaining 'living document'-status than would a code produced through a unilateral approach with punitive intentions in mind.

A code should be 'owned' by all the stakeholders of the organisation, but particularly by the employees. They need to embrace the spirit and content of the code and practice the guidelines continually. Such a code will stimulate ethical decision-making and behaviour and can be institutionalised with little resistance.

15.6 Design element of a code

Applying one's mind to these aspects will not only enhance the quality and ease of understanding of the code but will also ensure that the code is aligned to the purpose for which it is being developed or reviewed.

The architecture of the code

In deciding on the architecture of a code, one should ensure that the structure of the code is aligned to the intended purpose of the code. A code with a clear architecture considerably enhances the understandability and readability thereof.

In contrast, a code that does not have a clear architecture can be confusing and difficult to understand and remember. Possibly the worst architecture of a code is when the code is a randomly selected washing list of topics with no internal logical coherence.

It can be compared to a house that is built without a proper plan. Rooms are merely added on instinct, and the result is predictably a chaotic and impractical structure.

A number of different architectures for code design can be followed:

- a values-based architecture;
- a stakeholder-based architecture;
- a risk-based architecture;
- a citizenship-based architecture; or
- a blend of the above architectures

15.7 Values-based architecture

A values-based architecture utilises the organisation's ethical values as the basic structure around which a code is designed. By way of example, an organisation might have four basic ethical values, such as integrity, honesty, fairness, and respect. In this specific case the code will have four distinct pillars around which it will be designed. The organisation then typically states the values one by one, and systematically unpacks the meaning, ethical issues related to each value, as well as the behaviourial implications, i.e., the 'do's' and 'don'ts' associated with each value.

15.7.1 Stakeholder-based architecture

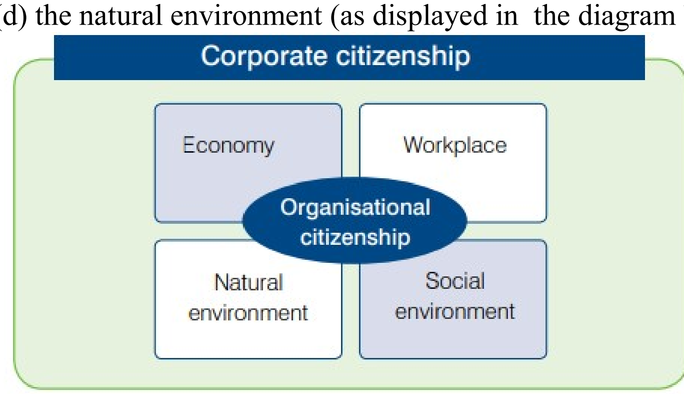
In the case of a stakeholder-based architecture the code is designed around ethical responsibilities related to specific stakeholder groups. The design of a stakeholder-based code commences with the drafting of a stakeholder map. Stakeholders who are affected by the organisation, or who can affect the organisation, will firstly be identified and then prioritised in terms of how material they are to the organisation. By way of example, an organisation might identify clients, suppliers, employees and shareholders as their material stakeholders. These four stakeholder groups then become the four pillars upon which the code is designed. With regards to each of these stakeholders, the specific issues, ethical values and standards, as well as the expected behaviours that should guide the organisation's interaction with each specific stakeholder group, are unpacked. In the box below it can be seen how the pharmaceutical company, Johnson & Johnson, uses a stakeholder-based architecture in their code of ethics, which they call "Our Credo"

15.7.2 Risk-based architecture

When a risk-based architecture is used in the design of a code of ethics, the organisation typically starts by analysing its ethics risk and opportunity profile, and then identifies the most material or strategic ethics risks and opportunities that confront the organisation. By way of example, an organisation might have identified the following six material risks that they are exposed to: (a) disrespectful treatment of staff, (b) disrespectful treatment of clients, (c) unfair supplier relations, (d) racial and gender discrimination, (e) sexual harassment, and (f) abuse of organisational property and time. The code is then designed around these six pillars. With regard to each of these six risk areas the nature of the risk, the appropriate ethical values and standards, as well as acceptable and unacceptable conduct are typically stipulated.

15.7.3 Citizenship-based architecture

When a citizenship-based architecture is used in code design, the organisation's impact as a responsible corporate citizen on the economic, social and natural environment serves as point of departure. A widely used corporate citizenship map (cf. Crane, Matten and Spence, 2007; Rossouw and Van Vuuren, 2017; Rossouw, 2018) distinguishes between four distinct areas of impact, which are (a) the economy, (b) the workplace, (c) the social environment, and (d) the natural environment (as displayed in the diagram below)



Four areas of organisational impact (Rossouw, 2018:11)

Figure Corporate Citizen ship

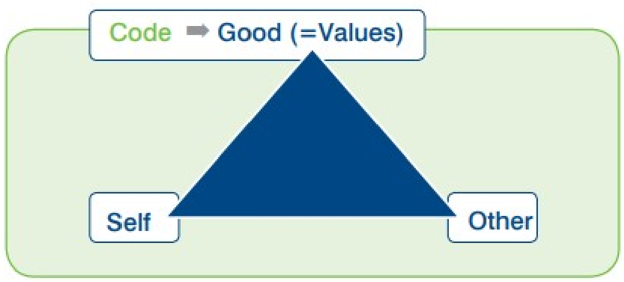
A code designed on the basis of a corporate citizenship impact model, will typically use these four areas of impact to clearly formulate the organisation's ethical responsibility with regards to the economy (e.g. preventing corruption in the marketplace), the workplace (e.g.employee safety and fair treatment of employees), the social environment (e.g. consumer safety and health), and the natural environment (e.g. responsible environmental practices). With regard to each of these four areas of organisational citizenship, the organisation identifies and describes relevant ethical issues, applicable ethical values and standards, as well as conduct prescriptions and prohibitions.

15.7.4 A blend of the above

It is also possible to blend architectural styles. For example, an organisation might decide to design its code of ethics by integrating a values-based design with a risk-based design. In such a case the core ethical values provide the main pillars of the code, but the material risks that relate to a specific value are elaborated upon under each of the pillars. It is also possible to fuse a citizenship design with both a values-based and a risk-based design. In the latter case the four areas of citizenship impact (i.e. the economy, workplace, social environment, and natural environment) provide the four pillars of the code, but the relevant ethical values and standards, as well as the material ethics risks in each area are presented under each of the pillars.

15.8 Code format

A code of ethics describes the collective 'good', i.e. what the organisation stands for and what is expected from its employees. The 'good' is usually defined by organisational ethical values and ethics standards (as displayed in the diagram below). There are, however, different ways in which organisations formulate and convey the 'good' that is expected



The 'good' as defined by organisational ethical values and standards

Figure code

The purpose of the code determines the format that it should assume. At opposite ends of a spectrum one finds codes that are harshly prescriptive with an aim to stop or prevent further unethical behaviour – they invoke fear and emphasise punishment as a consequence of unethical behaviour. At the other extreme are codes that inspire good behaviour – such codes promote the collective 'good' in a relational and reassuring way. Many organisations opt for a hybrid of these extreme approaches and attempt to capture the best of both worlds.

Since organisations have different identities and exist for different purposes, the way they approach ethics management will differ. Therefore, how they structure and present their codes will be unique to each organisation. A small organisation that has four or five employees may want to formulate its ethical expectations in a half-page document. Broad guidelines suffice, as there is consensus about what is 'good'. In contrast, a large multinational organisation with numerous ethics risks and challenges may want to be very specific in setting standards of the 'good' that could apply across many contexts. Clear and comprehensive guidelines are then captured in a multi-page document. In short: there is no one-size-fits-all.

Furthermore, the use of the terms 'code of ethics' or 'code of conduct', is contingent upon the industry or organizational vernacular. The terms are therefore often used interchangeably. Many organizations have a code of ethics that they refer to as a code of conduct, and vice versa. Many other organizations have both formats. Although the message about the 'good' is conveyed via either term, there is indeed a theoretical and practical difference between a code of ethics and a code of conduct. The differences between a code of ethics and a code of conduct are depicted in the table below.

Code of ethics	Code of conduct
Name of code: • Code of ethics • Ethics Charter • Credo (e.g. J&J • The Way We Do Business (e.g. PWC) • What we stand for • The Vodacom Way	**Name of code:** • Code of conduct • Disciplinary code • Conduct policy • Ethics policy • Ethics handbook (e.g. Telkom)
Intent: Aspirational – to set aspirational standards that all are expected to live up to	**Intent:** Directional – to provide guidance on acceptable and unacceptable conduct and practices
Primary focus: values and principles as a basis for behaviour.	**Primary focus:** guidelines or rules for behaviour.
A **proactive approach** to provide values-based reasons for good behaviour	A **reactive approach** to ensure compliance with prescribed standards of conduct
Document length: Short; typically, a one-pager	**Document length:** Longer; but not too long
Is a **"spirit of the law"** document.	Is a **"letter of the law"** document.
Promotes ethical behaviour: setting ethics standards that contribute to ethical culture formation.	**Prevents unethical behaviour:** provides behavioural guidelines; a necessary but not sufficient condition for ethical culture formation.
Number: There is (usually) only one code of ethics per organisation	**Number:** One organisation could have a number of codes of conduct (e.g. one for employees and one for suppliers)
Tone: More relational and transformational	**Tone:** Informational and instructional Number: One organisation could have a number of codes of conduct (e.g. one for employees and one for suppliers)

Code of ethics	Code of conduct
Revision: Rarely amended	**Revision:** As often as is required.
Ownership: Symbolically owned by all employees	**Ownership**: For compliance purposes, the code is owned by a specific function in the organisation
Endorsement: Signed voluntarily/ symbolically by as many leaders and employees as possible, e.g. during a code launch event	**Endorsement:** Formally signed by employees on the commencement of their employment as a conditions of service document
Disciplinary power: Should never have a punitive intent; does not belong in a disciplinary inquiry/hearing	**Disciplinary power:** Has punitive powers; may be tabled during a disciplinary inquiry/hearing

Differences between a code of ethics and a code of conduct

In essence, codes of ethics convey the gist of the organisation's ethics stance in a document that is often shorter than one A4 page. This does not imply that organisations that use this format have inadequate ethics policies. It is just that they realise that it is not possible to cover every behaviour, real or potential grey area or eventuality in a single document. These organisations have a concise values-based code of ethics that might be supported by a comprehensive code of conduct and an array of ethics policies. These policies contain detailed information on desired behaviour and account for legal requirements in terms of fair expectations and procedures.

Codes of conduct are often used by organisations to account for as many behaviours and grey areas as possible. This results in lengthy documents that are seldom read, but assertively tabled during disciplinary hearings.

In terms of code architecture, either format may be based on any or all of a values-based, stakeholder-based or organisational citizenship-based architecture. The depth of the presentation of values, stakeholder and citizenship foci may obviously vary from an overview-type of description in codes of ethics to an in-depth explanation in codes of conduct. Since a risk-based architecture assumes that the organisation has the desire to account for as many ethics risks as possible in its code, a code of conduct is better suited to a risk-based architecture.

Since both formats stem from different purposes and look and feel quite different when perused, there are advantages and disadvantages associated with each format:

Code of ethics (aspirational)	Code of conduct (directional)
Advantages	
• Is a clear statement of strategic ethical intent • Short document • Easy to read • Easy to recall the contents • Largely leaves ethics decisionmaking to the discretion of the reader (freedom to be flexible)	• Provides specific guidelines • Contains detailed information • Accounts for sanctions applicable to transgressions • Easy to enforce • Can function on its own with ethics-related policies and procedures merely providing complementary explanation
Disadvantages	
• May be too vague to ensure certainty in decision-making • Difficult to enforce • Relies heavily on supporting ethics-related policies and procedures	• Goes beyond ethical intent to assume policy-like characteristics • Lengthy document • Quite wordy and cumbersome to read • Difficult to recall all the contents • Does not allow much discretion in interpretation and decision-making

Advantages and disadvantages associated with different code formats

The following guidelines regarding the format of codes could be considered:
• Keep your code of ethics short, easy to read, easy to talk about and easy to apply;
• Draft your code of conduct to serve as a conditions of service document; • Include main ethics risks, challenges and issues as broad themes in a code of conduct; and
• Formulate and apply several ethics policies that act as explanatory documents and legal support for codes of ethics and conduct.

15.9 Code content

Selecting what content should be included in a code requires a structured and systematic approach, to ensure that only meaningful ethics-related information is included. In this section the following categories of code contents are discussed:
• The name of the code
• Leadership endorsement (auxiliary content)
• Rationale for the code (main content)
• Values and guidelines for behaviour (main content)
• Supporting structures, processes and resources (auxiliary content)

15.9.1 The name of the code

What's in a name? Again, there is no one-size-fits-all. The convention in the handbook up to this point has been to use the term 'code of ethics' as a generic or umbrella term that could describe various types of documents. As was indicated in the section on code format, codes of ethics could go by various names. Organisations should, however, name their codes in accordance with the code purpose and format. It stands to reason that values-based codes that are intended to promote ethical behaviour could have more 'gentle' names, for example code of ethics, credo, charter, 'what we stand for', 'the way we do business', 'our convictions', etc. On the other hand, codes that are designed with the intention of preventing unethical behaviour, that is, rules based codes, would have more 'harsh' names such as code of conduct, ethics policy, disciplinary code, or 'our rules'. Hybrid codes will probably be named 'code of ethics and conduct', 'code of ethical business conduct' or something similar.

15.9.2 Leadership endorsement

An important contribution to optimising a code as the organisation's formal statement on its ethical standards, is a section on leadership endorsement. The code can be preceded by one or more messages 'from the top'. Such messages, usually in a foreword or 'letter to stakeholders' format, send out an important signal of leadership support and encouragement.

Since the messages have to be credible, the persons or bodies chosen to provide the leadership endorsement should (1) be known to stakeholders and (2) be ethically credible and well-respected organisational or industry leaders.

Persons whose messages stand a good chance of being listened to:

- The chairperson of the governing body
- The CEO
- The chairperson of the ethics committee of the governing body
- The ethics champion
- An influential external stakeholder, e.g. the organisation's industry regulator

The messages need to be short but impactful, and should convey leadership commitment to the code and the implementation thereof. They could also call for ethics awareness, adherence to the ethics expectations stipulated in the code, encouragement to use discretion in the interpretation and application of the code and could provide a 'mandate' to the stakeholders to confidently engage and talk freely about ethics concerns and issues. In the box below is an example of such leadership endorsemen.

Adding specific behavioural guidelines to each value make the values real. Organisations often merely 'throw' a set of values 'at' their stakeholders in the hope that everyone will automatically understand and immediately apply the values. This is a naïve assumption – people interpret the meaning of values differently and not all interpretations will necessarily complement the collective 'good' as envisaged. Ethical values are by nature vague and abstract concepts – the word integrity for example, remains a word on the wall or in the code until such time that it is 'translated' into observable and visible behaviours that describe a concrete contextual translation and application. Words such as respect, fairness, honesty, responsibility and other ethical values should receive the same 'behavioural' treatment.

15.10 Summary

Codes of ethics have the potential to be pivotal and powerful instruments in guiding conduct and culture in organisations. They can become living documents that nourish the ethos of organisations. The guidance provided in this Codes of Ethics Handbook can ensure that a code of ethics is designed in a systematic and purposeful manner that will enhance the chances of the code fulfilling the purpose for which it was created. A well-designed code with a clear purpose, an appropriate format, relevant content, and the right tone, is more likely to have an impact on an organisation than a code with a sloppy design, lack of logical coherence and confusing content.

Even the best designed code can still fail to make an impact on an organisation. It can only have an impact on an organisation if it is properly communicated, embraced and supported by leaders on all levels of the organisation, and consistently applied to all levels of the organisation. Codes of ethics need an ethics ecosystem to come to life and to thrive.

Ultimately a code is words on paper that must be given life and legitimacy through the decisions and actions of people.

15.11 Key words

Code of Ethics- Codes of ethics can be powerful instruments in setting ethical standards and cultivating ethical cultures in organizations. That explains why codes of ethics are often regarded as the ethics constitution of an organisation.

Ethics -Ethics then implies that one is ethical when one does not only consider what is good for oneself, but also consider whether what is 'good' for the 'self' is also good for 'others
The code's purpose is determined by the need for the formulation of ethical standards in the organisation

Values-based architecture-A values-based architecture utilises the organisation's ethical values as the basic structure around which a code is designed. By way of example, an organisation might have four basic ethical values, such as integrity, honesty, fairness, and respect

Stakeholder-based architecture- In the case of a stakeholder-based architecture the code is designed around ethical responsibilities related to specific stakeholder groups. The design of a stakeholder-based code commences with the drafting of a stakeholder map

15.12 Self assessment Questions

1. Explain the Code of Ethics
2. Discuss the Process of Code of Development
3. Examine the Element of Code

15.13 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017,.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021
6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

LESSON -16

CHALLENGES OF GLOBALIZATION IN CONTEXT OF MARKET ECONOMIES

Learning objectives

To Learn about the Perfectly competitive Market
To study the Ethical Issues in Perfect Competition
To Know the Cartels in India
To Discuss the Determinants of Cartels

Structure

16.1 Introduction

A market is a place of interaction between buyers and sellers. The geographical location of the market is of little importance. Transactions can be done at any place. So, in order to be a market, the exclusion principle must apply. This means that a person, who is not paying, can be excluded from the market. Therefore, a market is a neutral institution and a place where exchange of goods and services is based on the principle of fair play. A market can have one or more sellers or buyers. Thus, there may be monopoly, duopoly or oligopoly. From the buyer's side, there may be monopsony, duopsony or oligopsony.

The existence of all these types of markets will create a market structure. The purpose of this chapter is to analyze the output and pricing conditions of different types of market structures and organizations, and more importantly, to pin-point the ethical issues embedded in each type of market system.

16.2 Perfectly Competitive Market

Perfect competition has the following characteristics:

1. There are many buyers and many sellers.
2. There is free entry and exit for any fi rm.

3. Every firm is a price-taker.
4. No firm is able to increase or decrease the price level in a perfectly competitive market.
5. The goods are homogenous in quality.
6. The firms are guided by the philosophy of profit maximization.
7. The products are all divisible.
8. There is no Government intervention or regulation affecting the market.
9. The market is transparent and there is perfect knowledge on the part of the seller and the buyer about the prevalent market conditions.
10. There is complete mobility of factors of production in the industry.

16.3 Distinction Between Perfect Competition and Pure Competition

Perfect competition is a broader concept than pure competition. In pure competition, the last two characteristics of perfect competition described above, namely perfect knowledge and perfect mobility of factors of production, are not present. Both perfect competition and pure competition are illusory concepts, as they do not exist in the real world.

16.4 Determination of Output and Prices Under Perfect Competition

The output and price decisions under perfect competition for the industry as a whole are shown in Figure 16.1.

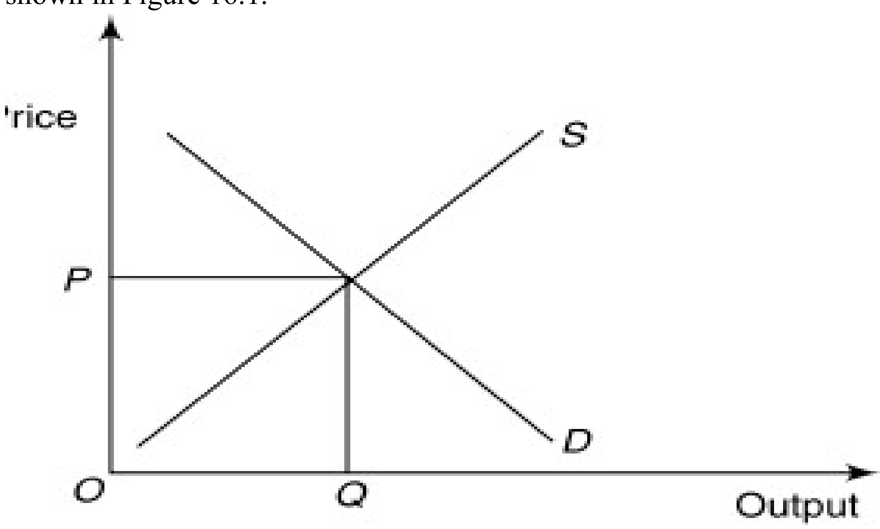


Figure 16.1Output and Prices Under Perfect Competition

The pricing and output decisions can be described both for the short and long run. The equilibrium price is the market-clearing price. At that price, the quantity demanded and supplied will be equal.

In the short run, fi rms can make profit or sustain losses, or can make only normal profit by attaining the breakeven. It should be noted that the average revenue, marginal revenue, average cost and marginal cost are all equal at the point of equilibrium. Under perfect competition, the Average Revenue Curve and Marginal Revenue Curve are equal and horizontal. It is possible for a firm in the short run to earn super normal profit or economic profit. However, in the long run this profit is competed away, as there is free entry in the market. It is competition that reduces the prices to the minimum level giving maximum benefits to the consumers. Such a situation also ensures minimum profit (normal profit) to the producers to stay in the business. Perfect competition is justified because it works against the possibility of concentration of economic power in a social system.

In the short run, the fi rms making losses will not immediately leave the industry. They will try to adjust their internal production conditions so that they can in future attain the equilibrium price without incurring losses. Such fi rms will continue to exist so long as they can cover the average variable cost. However, after waiting for a reasonable period of time, if a fi rm cannot recover the average variable cost, then it will have to shut down.

16.5 Long-Run Equilibrium Output and Price
In the long run, a fi rm will attain equilibrium under the following two conditions:
(i) The price must be equal to marginal cost
(ii) Price must be equal to the average cost
Under perfect competition, since the price level is the same, i.e., the Average Revenue (AR) curve and the Marginal Revenue (MR) curves are perfectly elastic (horizontal straight line). The Marginal Cost (MC) curve must cut the Marginal Revenue curve from below in order to determine the equilibrium output and price. The Average
Revenue curve is nothing but the demand curve.
In the long run, under perfect competition, a firm will produce at the lowest point of the Average Cost (AC) curve as shown in Figure 16.2.

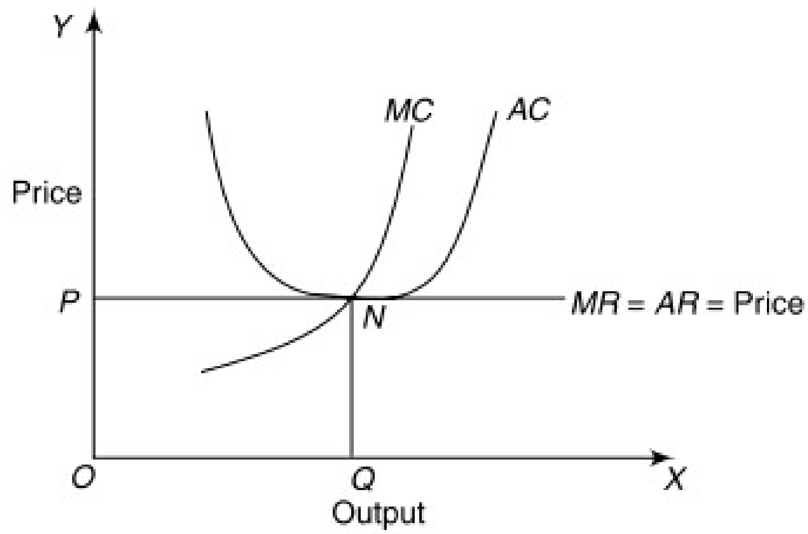


Figure 16.2 Average Cost Curve

There are two implications of production at the lowest point of the AC curve.
Firstly, the firm will have the maximum amount of output at the minimum possible price.

Secondly, the firm will have a situation of equilibrium where there will be a breakeven point; this means that the fi rm will make no profit or no loss. In other words, the firm will have an economically optimum or ideal size, that it is the best for society and also for the producer because it leads to a situation of maximum efficiency from the point of view of the producer as well as the consumers.

This situation of zero profit is to be interpreted cautiously. The zero profit does not mean that the firms are not making a profit. The fi rms are indeed making normal profits. The fi rms are making positive accounting profits, and these profits are different in the long run. In the accounting sense, the differential managerial skills, experience and cost-reducing internal economies and the impact of all are taken into account. Thus, a fi rm which is more efficient and competitive will make an accounting profit. For instance, a manager with better skills and experience will get a higher salary in the accounting sense and the fi rm will get a higher profit if it has better technology and efficiency.

Thus, it is possible for a good fi rm to earn more profit even in the long run. Better efficiency and technology will lead to a reduction in the average cost of production per unit of output. But in the economic sense the average cost will equalize the average revenue and marginal revenue

In the long-run equilibrium, a fi rm under perfect competition will have the following conditions:

P = MR = LMC = LAC

In the long run, a fi rm in the perfectly competitive market cannot exist unless it is able to reduce its cost to minimum and which is equal to the prevalent market price. Thus, in a sense the fi rm tends to be of optimum size.

Competitive Equilibrium and Efficiency

A perfectly competitive market which is in equilibrium shows efficiency in terms of consumers and producers. There is efficiency in production which is called allocative efficiency. This is achieved when the price level is equal to Marginal Cost (P = MC).

The consumers are able to get consumers' surplus and producers are able to produce those commodities at the minimum possible price (producer's surplus).

Thus, a competitive equilibrium is an efficient equilibrium as shown in Figure 4.3.

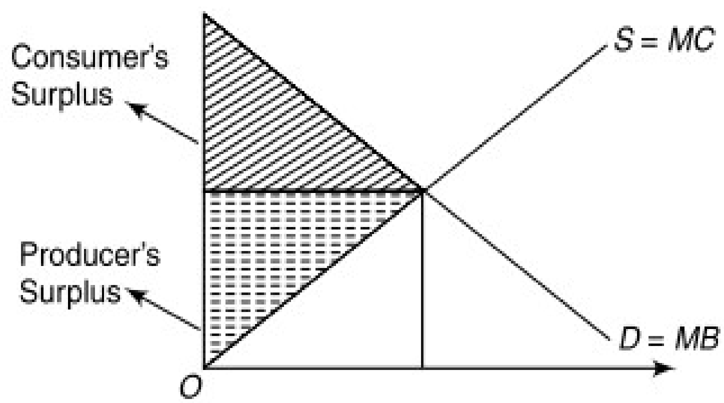


Figure 16.3 Equilibrium and Efficiency

16.6 Competition in Perfect Competition?

It is sometimes felt that the expression, perfect competition, is a misnomer because there does not seem to be any competition. This is so because the prices and the quality of goods are the same and everyone is earning normal profits (production at the minimum point of AC curve ensures normal profit). So, where is the competition?

The answer to this question lies in the fact that it is because of intense competition among the producers that price equalizes in the market. Moreover, the competition is present, every fi rm wants to maximize profit by selling more so that the total normal profi t is the largest. Every fi rm is trying to achieve the goal of total sales maximization which will lead to normal profi t maximization.

16.7 Ethical Issues in Perfect Competition

From the above discussion, the ethical issues involved in perfect competition become very obvious.

Firstly, the system of perfect competition (PC) seems to be just in the sense that it is generating maximum output under the given situation. Given an appropriate distributive mechanism, it should ensure that everybody is getting his largest share of output. PC leads to maximum satisfaction in terms of needs. Social welfare means that a situation of maximum output is better than that of minimum output. Thus, PC is a situation of abundance where nobody suffers from the scarcity of products

Secondly, PC is justified on the ground that both consumers and producers are happier—consumers get some consumer's surplus because of lowest possible prices of products and producers are satisfied because they can reap producer's surplus by supplying the output at the lowest possible cost. PC ensures an efficient condition in the realm of production and consumption. It is ethically a just market condition, nothing can be better than this. In terms of utilitarian ethics, no other market structure will be as beneficial as PC.

Thirdly, under PC, not only the output is maximum but the price of that output is minimum too. Both these situations are ethically justifi ed in the sense that they can be helpful for the poorer section of the society. Other things, remaining the same, one should expect that PC will lead to lesser poverty and deprivation.

Finally, marginal cost pricing rule, that fi xes price equal to marginal cost, can ensure allocative efficiency. In such a situation, no factor of production (including labour) is exploited. Since the remuneration to a factor of production is made equal to its contribution or marginal productivity, it can be said to be the just method of remuneration.

16.8 Monopoly

A monopoly is a type of market form where there is only one seller controlling the entire supply of a single commodity which has no substitute. A monopoly fi rm is a price maker fi rm. Monopoly arises because of efficiency, large-scale production, specialization and presence of barriers. The barriers may be purely economic or legal in nature. There are some major differences between perfect competition and monopoly (See Table16.1)

Table 16.1 Difference Between Perfect Competition and Monopoly

Perfect Competition	Monopoly
1. Many buyers and many sellers.	1. One seller but many buyers.
2. Price is lower and output is generally higher.	2. Price is higher, output is lower.
3. Monopoly power is absent.	3. Monopoly power is present.
4. AR and MR curves are horizontal.	4. AR and MR curves are downward sloping.
5. Only normal profit is possible in the long run.	5. Super normal profit is possible.
6. There is economic efficiency.	6. There is no economic efficiency.
7. Price is the same.	7. Price may not be the same.

In spite of many differences discussed above, there are two important similarities between perfect competition and monopoly.

1. In both the cases, the equilibrium output and prices are determined by the principle of MR = MC.
2. Both these market fi rms are governed by the basic objective of profit maximization

Output and Price Determination under Monopoly

A monopolist generally makes profit as shown
in Figure 4.4.

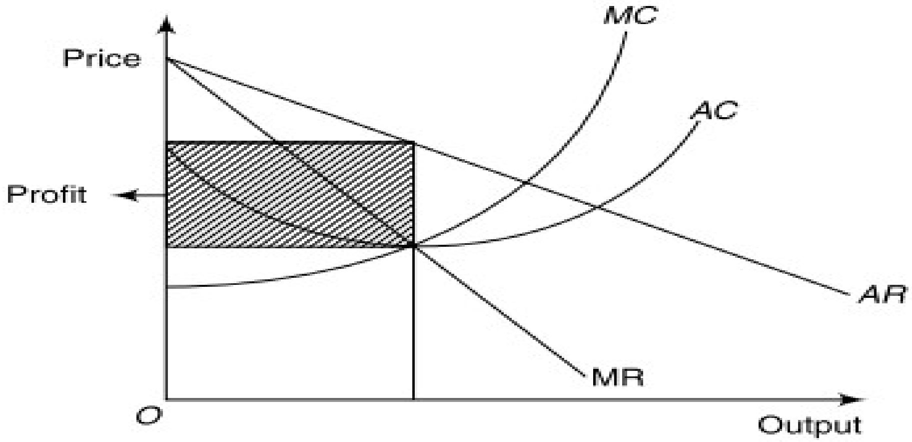


Figure 16.4 Price Determination under Monopoly

However, in the short period, a monopolist may incur some losses too. But this eventuality is very rare. The AR and MR curves for a monopolist are downward sloping. This means that to sell more of his output, he has to reduce the price.

It is not always necessary that a monopolist's price will be higher than the price under perfect competition. This is so because price depends on the cost structure, technology and input-use.

A monopolist who is inexperienced and has no control over inputs may face spiraling costs.

Then there may be some legal restrictions to increase the mark-up; so a monopolist may neither be able to increase the price of his product at his own will or his mark-up margin at any rate he wants. When a monopoly power becomes very high, the Government likes to control such a power for social welfare.

16.8.1 Measurement of Monopoly Power

Monopoly power implies the amount of discretion which a monopolist possesses to fi x up the prices of his products and the degree of control over his output decisions. There are different methods of measuring monopoly power which have been discussed below.

1. According to A.P. Lerner, the monopoly power can be measured in terms of the gap between
monopoly price and price under perfect competition;

The degree of monopoly power = (P − MC)/P (P is the equilibrium price of the monopolist; MC = Marginal cost of the monopoly fi rm which is in equilibrium).

If we take a positive value of P and MC, we fi nd that the monopoly power is positive. In the case of a commodity, the MC = 0 (free good) but the price is say 20, the value of monopoly power will be = 1. If the price is 20 but the MC is also 20, then the value of the monopoly power will be = 0. Thus, Lerner shows that the degree of monopoly power varies between 0 and 1.

2. J.S. Bains has argued that the degree of monopoly power can be measured by the monopoly firm's super-normal profit.

Monopoly power is equal to (R − 0)/R.

The opportunity cost of owner's capital is O and the actual profit is R. The margin for the risk is assumed to be zero in this analysis. If the value of this is zero, there is no monopoly power and if it is greater than zero there is monopoly power. The higher the value of R-0/R the greater is the monopoly power int the Figure 16.4 Price determination under Monopoly.

The degree of monopoly power can also be measured by concentration ratio. The concentration ratio measures the size of the largest fi rms' shares in the total sales or assets or profits of the whole industry. One can consider a number of fi rms to estimate the concentration ratio (traditionally, concentration of four large fi rms is taken into account).

Suppose the market shares of 4 fi rms are respectively, 0.30, 0.20, 0.10 and 0.05. Then, we take the cumulative market shares and calculate the monopoly power. Thus, the cumulative market shares will be respectively: 0.30, 0.50, 0.80 and 0.85. Therefore, in a four-fi rm model, the concentration ratio may be 0.85 (CR = 85%). One can then compare this result with a 5-firm concentration situation and compare the degree of monopoly power. Concentration ratio refers to the market share of the largest fi rms in an industry. If the concentration ratio is 85 per cent, it means that the largest fi rms have 85 per cent of market shares. Two problems vitiate the result. Firstly, the result will be different, if one takes assets, or profits rather than sales.

Secondly, unless there is a cut-off point, one does not know whether a particular concentration ratio indicates monopoly power or not. In the United Kingdom, a CR ratio of more than 65 per cent indicates monopoly power.

4. The degree of monopoly power can be measured by the price elasticity of demand. Monopoly power is the inverse of the price elasticity of demand. Thus, if the price elasticity of demand is 0.5, the monopoly power = 1/0.5 = 2, but if the elasticity is 4, the monopoly power is ¼. It becomes clear that the degree of monopoly power will be higher in the case of inelastic goods and lower in the case of elastic goods. This outcome stands to reason. There are other measures of estimating the degree of monopoly power which we need not discuss here.

16.8.2 Regulations of Monopoly

Since a monopoly price is generally high and output is low, there arises a need to control monopoly, and this is done through different types of regulatory measures. The following are the major regulations to control monopoly.

1. The Government can impose price regulation on monopolists through various strategies. However, if the price is above the competitive price level, the welfare loss due to monopoly cannot be completely eradicated.
2. Various types of taxes can be imposed on a monopolist. These taxes may be a lump-sum tax, or may be a specific or per unit tax. The impact of a lump-sum tax may be borne by the seller and buyers may be spared the tax. The most common taxes are excise duties and sales tax.

However, the monopolists may be able to transfer the tax to the buyer. This will depend on the elasticity of demand for his product. If the elasticity of demand is very low, the tax burden is borne by the buyers. However, if the elasticity of demand for the product is high, the tax is generally borne by the monopolist.

3. Many countries now are coming up with anti-monopoly legislations to promote greater competition in the market.
4. Another way of regulating the monopoly is to introduce the marginal cost pricing where P = MC. In such a case, the efficiency in the allocation of resources can be ensured.

5. The Government can also prevent by legislation cartelization and collusion among the firms which are producing similar types of goods.
6. Through various measures, barriers to enter a particular type of business can be reduced.
7. It is also necessary to break large fi rms into small firms and prevent big firms from getting bigger and ultimately turning into a monopoly.

In the case of India, the MRTP commission has been entrusted with the task to ensure that monopoly power and restrictive trade practices do not grow to a dangerous level. However, the MRTP, in several cases lacks the legal authority to impose punishment against the big monopolists

16.8.3 Ethical Issues in Monopoly

Monopoly is diametrically different from perfect competition in terms of ethical considerations. Firstly, monopoly is socially unjust in the sense that it produces lower output thereby creating a situation of scarcity. Under this situation, people have to suffer to get the output at a reasonable price which is detrimental to poor people and to the society as a whole. This form of market is not conducive for the maximization of social welfare.

Secondly, product prices under monopoly are unreasonably high. Poor people cannot afford the products being produced under monopoly. Social welfare is significantly minimized. Even though the monopoly price is sometimes discriminatory, it is not determined whether the poor will gain.

Thirdly, under monopoly, the goods having inelastic demand (necessity) which are generally consumed by poor people are priced higher than those commodities that have more elastic demand. This implies that a monopoly is specially unjust to lower income groups. Finally, to maximize profit may not be unethical per se, but to reduce the availability of output in a bid to maximize profit is unethical behaviour.

16.9 Oligopoly

Oligopoly is a type of market where there are a few sellers and many buyers. The number of sellers may be three or more. However, the exact number has not provided by any definition of oligopoly.

It is generally understood that under oligopoly, there are only a few sellers. Most of the time, prices under oligopoly are rigid. This happens when the demand curve is unpredictable. In such a case, there is an asymmetric response from one fi rm to another fi rm's price change.

If one firm raises the price, other fi rms will not do so. This is why the top portion of the demand curve is elastic. But if the price is reduced by a fi rm, others will follow. If they do not comply, then they will loose customers. So, the fi rst seller will not gain much by reducing the price level. Thus, the bottom portion of the demand curve is relatively inelastic Thus, oligopolistic price remains stable and rigid

16.9.1 Collusive Oligopoly: Cartel

Some oligopolists may work on the basis of collusion and form a cartel. They produce the same type of goods and agree formally to follow a uniform price and output policy, as the OPEC countries producing petrol.

16.10 Determinants of Cartels

A cartel is formed on the basis of the following characteristics of production:

1. Homogenous products.
2. The products should have inelastic demand.
3. There is a geographical concentration of fi rms of producing similar type of products.
4. There is the absence of legal restrictions.
5. Few firms produce the products.
6. There are entry barriers.
7. There is the absence of substitutable commodities.

16.10.1 Price and Output Decisions

The basic purpose of cartel formation is the maximization of profits. The cartel may also advise the member fi rms to produce output at costs which are equal. The members are free to fi x their output for sale. But they cannot change the price formally agreed by the cartel. However, in a perfect type of cartel system, the members are not allowed to change the level of their individual output either.

In extreme cases, however, the whole market is divided and the members are allowed to change the levels of output and price when they desire. The cartel acts like a monopoly with full control over output and prices of all fi rms which are its members.

Each individual fi rm determines its own output level at the point of

intersection between the MC and MR curve. The individual MR curve is determined by the profi t maximizing MR of the industry.

16.11 Cartels in India

Adam Smith, the father of Economic Science, wrote in his Wealth of Nations that "when the people of the same trade meet, the conversation ends in conspiracy against the public or in some contrivance to raise prices". The statement is true in the case of cartels in both developed and developing countries. In India, cartelization is present in many of the industries like iron and steel industry, pharmaceutical retailing, cement industries, private airlines, transmission towers, electric cables, construction and transportation, to name a few. Cartels are also present in tyres and trucking industries and family planning devices.

Most of the cartels are to be found in those industries that produce intermediate goods and also in service sectors. As a result of cartelization the prices of finished products escalate, and the consumers experience difficulties to buy those products. For instance, the pharmaceutical cartels demand 2000 per cent profit margin. A study by Pradeep Mehta revealed that the cement industry in India recently introduced a 50 per cent price hike in the recent past. The MRTP Commission has found 44 cement companies guilty of cartelization in 2004. Most of the cartels in the pharmaceutical industry in both developed and developing countries control vitamin production. The vitamin cartels are very active in the European union, US and also in India. But no legal action is being taken against those cartels.

The Finance Ministry of India was recently thinking of launching competition audits to reduce and restricting these unhealthy practices. The new Competition Commission of India has an ambitious agenda in this regard. The MRTP Commission has also been conducting surveys to unearth those cases of cartelization which are harmful to the public. However, it is beyond the power of the MRTP to punish the cartelers. In a recent case against a cement company, the Supreme Court of India rejected the punishment imposed by the MRTP Commission on the ground that the Commission had no legal jurisdiction over the cement cartels in India. Many such cases of cartelization and their monopolistic practices are being gradually reviewed by research studies in recent years.

16.12 Ethical Issues in Oligopoly

An oligopolistic system is involved in many types of unethical practices some of which are briefly discussed here. Firstly, as Adam Smith pointed out, a system of business practices by some fi rms (oligopoly) with or without cartels, is a type of conspiracy against the public. This conspiracy ultimately leads to price inflation which goes against the poor consumer. This is ethically unjust.

Secondly, oligopolistic market practices, particularly in the case of collusion or cartelization, may lead to the curtailment of production, which means that the society is deprived of some necessary goods and services, and social resources remain under-utilized. This is ethically unjust especially in a situation if these goods are to be used by sick people, babies and the poorer section of the society.

The creation of artificial scarcity for maximizing profits is a moral crime.

Thirdly, cartelization and collusion are organized unethical practices that reduce the supply and increase prices. There is no moral justification for this type of business behavior. Thus, on ethical grounds, this type of organized group strategy should be condemned and legally punished. This is the reason why cartels have been legally banned in several countries.

Lastly, oligopoly prices remain unpredictable. If the price is increased by a fi rm A, but others do not follow the same strategy, firm A will lose his customers. There is usually no move by a firm to reduce the price of its own product either, even if the situation permits. This is so because although he may attract some additional customers by doing so, he may be a loser (in terms of cost) and there may be retaliatory price cutting by his rivals. If the rival fi rms reduce their prices at a rate which is higher than that of the first fi rm, fi rm A that initiated the price reduction will lose his customers.

Thus, usually under oligopoly, the price level remains 'sticky' and stable. However, for many reasons, price stability may be unjust when situations demand price reduction. Even if the cost of production substantially reduces, the consumers do not get any advantage of that under oligopolistic market structure. This is obviously unjust.

16.13 Summary

A market is a neutral institution and a place for exchange of goods and services. There are many types of markets including perfect competition, monopoly, duopoly and oligopoly. The existence of all or some of these types of markets creates a market structure. A perfectly competitive market is characterized by many sellers, many buyers, one price and the same quality of goods. A particular seller cannot influence the price of goods. He is only a price-taker and not price-maker. Because of stiff competition in the market, the price is the lowest and the output is the highest. Perfect competition is a much wider concept than pure competition. In perfect competition, there is no possibility of concentration of economic power. Every fi rm under perfect competition earns normal profit only.

A perfectly competitive system is an efficient system because there is allocative efficiency and there is consumer and producer surplus. Perfect competition seems to be a just system because of many reasons. It generates maximum possible output at minimum possible price, making both consumer and producer happy the price is based on marginal cost.

Monopoly, on the other hand, is ethically an unjust system because, prices are high but output is low. There is a concentration of power; no economic efficiency and the producers get super-normal profit. These are the reasons why monopolies need to be regulated. The regulation is done through price control, control on the profit margin, taxation, and so on. Under oligopoly, a few sellers control the market. However, because of inter-fi rm actions and reactions, oligopoly price remains sticky. Some oligopoly firms may fi rm a cartel and follow more or less the same price and output policies.

Cartelization has become a serious problem both for consumers and for the government. It is unethical in the sense that it increases the prices of products and reduces the volume of output. Adam Smith says that it is a system of business practices by some firms which is a sort of conspiracy against the public. Cartelization and collusion are organized unethical business practices. Moreover, when price reduction is called for, because of market condition, it is not done by the system of collusive oligopolistic practices. There are many cartels in the world and also in India. The OPEC cartels, vitamins cartels in the USA, EU and India are some examples. They make hundred per cent profits, increase social cost and malpractices but unfortunately no serious legal actions are taken against them.

16.14 Key words

Perfect Competition-A system of perfect competition (PC) seems to be just in the sense that it is generating maximum output under the given situation

Monopoly -A monopoly is a type of market form where there is only one seller controlling the entire supply of a single commodity which has no substitute

Oligopoly-Oligopoly is a type of market where there are a few sellers and many buyers. The number of sellers may be three or more. However, the exact number has not provided by any definition of oligopoly.

16.16 Self Assessment Questions

1. Distinguish between monopoly and perfect competition.
2. Is monopoly always higher than competitive price? Give reasons for your answer.
3. Examine the concept of Nash equilibrium in the context of duopoly.
4. How will you measure monopoly power? Explain briefly the major models.
5. What is a cartel? Write a note on cartels in India

16.17 Suggested Readings

1. Hasan Baber Business Ethics and Corporate Governance: A Textbook with Cases - 2015
2. Dr. F. C. Sharma Business Ethics And Corporate Governance SBPD Publications 2017.
3. K P Muraleedharan, E K Satheesh Fernando's Business Ethics and Corporate Governance,3rd edition Pearson Publication 2021
4. Dr. K. Sravana CORPORATE GOVERNANCE AND BUSINESS ETHICS
5. Fernando A.C. Business Ethics and Corporate Governance Pearson Education India 2021

6. Dr. S. Saravanan Dr. Sanjay Prasad Lalita Babulal Malusare Dr. Pankaj Choudhary Business Ethics And Corporate Governance , Springer Publications 2022

Lesson-17
DEFINITION, MODEL FOR IMPLEMENTATION OF CSR

Objective
1.Introduction to the social responsibility
2.To explain the corporate social responsibility
3. To define the model of social responsibility

Structure

17.1 Introduction
In the last one decade, the concept Corporate Social Responsibility (CSR) has witnessed a paradigm shift in doing business from traditional private institutions to social institution. Companies have integrated the community development as a goal in to their business goals by considering the responsibility for the impact of their activities on all stakeholders as well as environment. Business exists because society provides a resource pool and license to operate. Society provides various inputs to the businesses in form of skilled and unskilled labor, natural resources, raw material for the sustainable growth and continuity of business. As a result, corporate management must consider the demands of society by integrating them in to business activities and practices in such a way that business operate in accordance to societal values.

Although the core objective of any business corporate as to maximize profit and maintain it on a sustainable basis, as an artificial citizen of the country it belongs, every business has certain sets of responsibilities towards the society not just for obligatory ground but for fulfillment of its core objective as well. As a gesture of these sets of responsibility has gained momentum now-a-days and has been the talk of the business world in recent times.

CSR refers to conducting business with transparent business practices that are based on ethical values, compliance with legal requirement, respect for people and communities and concern for environment. Thus beyond making profits, companies are responsible for the totality of their impact on ‘people and planet’. People constitute the company’s stakeholders such as investors, employees, business partners, clients, customers, suppliers, vendors, civil society groups, government, non-government organizations and the community in particular and society in general planet covers for environment.

In short, corporate social responsibility is a company’s commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical. Thus corporate social responsibility is all about "Doing well for Society and Environment by doing well out of profits through social innovation for building everlasting social connectivity. Business world had realized that if any business is conducted with sole motive of profit maximization for the shareholders without having social and environmental concerns is bound to fail in the long run. Thus the concept of corporate Social Responsibility and sustainable development has been emerged as concerns of business activity (Carroll, 1991).

Community in this context is the group of people who are dependent on each other for the fulfillment of certain needs, with a common purpose, interact on regular basis and live in close proximity. In a community, there is a common feeling of commitment towards welfare of the community and all group members are willing to communicate openly. Swisher, Rezola, & Sterms (2006) argue that a community which is developed on the basis of sustainable development is an economically productive, environmentally sound, and socially justifiable community. The sustainable community development covers social, economic and environmental dimensions. Therefore, a firm which prioritizes the expectations of the community enjoys the community support which further ensures the sustainability of the company in the long run. Community development refers to the various activities or initiatives undertaken by community in association with external organizations for the growth and development of the community area and members to empower the community members in a sustainable manner. Federation of Community Development Learning (2008) in context of community development put emphasis on educating, enabling and empowering the local people.

The United Nations focused on the creativity and self- reliance aspects of the community for the attainment of short and long run goals, in addition to the CSR roles of the business firms. United Nations (1971), explains "Community Development is an organized effort of individuals in a community conducted in such a way to help solve community problems in collaboration with external organization." The external organizations are comprised of government, non-government organizations, small and medium enterprises (SME's) and multinational corporations (MNC's).

The definition has been highly applicable to corporations, governments and other players as a result of a vigorous debate among a variety of academics regarding its significance (Carroll, 2004; Dahlsroud, 2008; Robins, 2005). (Triple Bottom Line) It's still a good term for the growth of social responsibility. The increasing concern is largely due to initiatives by foreign agencies, policymakers and civil society organizations. It has led to fair working conditions and increased use of resources and realistic steps to counter corruption (UNGC, 2012).

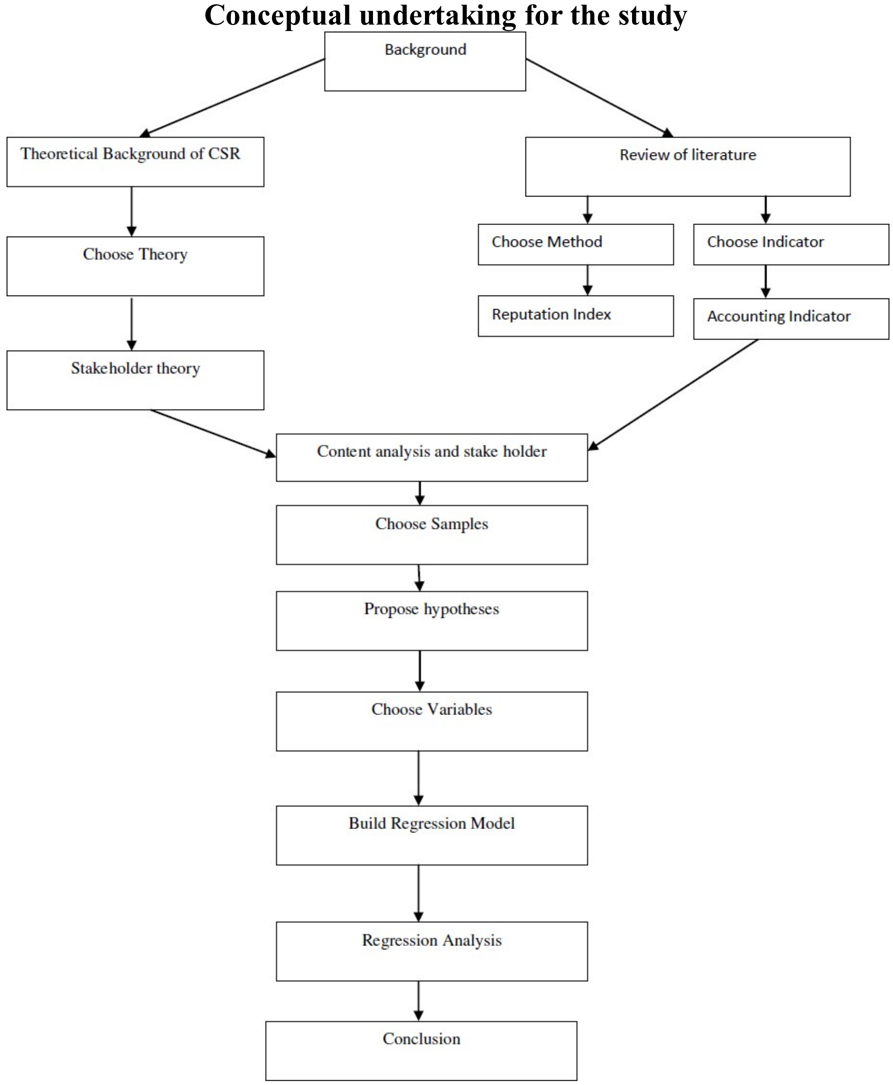
Some CSR initiatives have been taken by a number of transnational companies (TNCs) in order Promoting and enhancing the working environments of fair and competitive market praxis in Asia and the Pacific (ESCAP, 2009). But since the idea of CSR has grown predominantly in West, in particular in the USA, policy-makers and business leaders in the region have received little interest in the historical development of CSR.

The foundations of today's CSR definition have lengthy backgrounds that indicate that individuals from industry pay more attention to society's needs (Carroll, 2004). (Carroll, 2004). The expansion of the definition not only leads to a deeper perception of the nature of CSR and the interaction between firms and their core actors, but also to an increased view of the company position in growth and its commitment to society.

17.2. Concept of Corporate Social Responsibility

As mentioned before, academics and practitioners have been striving to establish an agreed-upon definition of CSR for 30 years. Since CSR is a broad concept, there is a variety of definitions given to this term. The Confederation of Finnish Industries EK prefers to use the term Corporate Responsibility. Corporate Responsibility is defined as "active responsibility, which stems from the company's values, objectives, and activities and which takes into account the expectations of the main stakeholders. It is built upon economic, environmental and social principles. The aim is to realize sustainable development within companies in a voluntary way" (EK, 2006). European Commission (2006) has proposed an equivalent definition of CSR as "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". Both of the concepts emphasize the importance of enterprises' voluntary contribution, in cooperation with their stakeholders, to social and environmental issues. It is claimed that through CSR, enterprises of all sizes can boost their business in a long-term run since CSR initiatives can help to build (and rebuild) trust in the focal companies, and to meet customers' sustainable needs and expectations. Since CSR implementation can reconcile economic, social and environmental ambitions, it has gradually become an important concept both globally and within the EU.

Conceptual undertaking for the study



Lantos (2001) has argued that CSR is "the organization's obligation to maximize its positive impact and minimizes its negative effects in being a contributing member to society, with concern for society's long-term needs and wants".

Above all definitions, Carroll's pyramid of Corporate Social Responsibility has received the most attention. In his article on Business Horizons (1991) "The pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders", Carroll suggested that CSR includes four kinds of social responsibilities: economic, legal, ethical, and philanthropic. These four dimensions might be depicted as a pyramid. It was proposed that all these components have always existed to some extent, but ethical and philanthropic responsibilities have only drawn significant attention in recent years (Carroll, 1991.).

In this article, Carroll states that "business organizations were created as economic entities designed to provide goods and services to societal members", and profitability is the primary motive for entrepreneurship. As such, all other responsibilities are predicated upon the economic responsibilities of the business organization (Carroll, 1991.). Table 1.1 summarizes some important aspects concerning economic responsibilities. Legal responsibilities, which will be explained next, are also stated in Table 1.

Economic Components (Responsibilities)	Legal components (Responsibilities)
1. Profitability is the first priority	1. It is important to obey the laws and other local regulations
2. Maintaining a strong competitive position is an important target	2. A successful firm is the one that fulfills its legal obligations
3. Efficient operation is a must	3. Providing goods and services that meet minimal legal requirements is key to keep the firm operated

Table 1.1: Economic and legal components of CSR (Carroll, 1991)

Along with economic responsibilities, firms are expected to comply with the laws and regulations imposed by the governments under which the enterprises are operating. In other words, companies are not supposed to engage in illegal practices in order to generate profits, but are expected to fulfill their economic missions within the framework of the law (Carroll, 1991.). The legal component is depicted as the next layer, followed by ethical and philanthropic categories, on the pyramid of CSR.

Ethical responsibilities embody those practices that are approved or disapproved by the society even though they are not stated in the law. This ethical aspect of CSR should direct the companies not only to avoid harm but also to do right. Ethics is closely connected to values and norms formed during the development of societies and cultures. Therefore, those ethical standards or expectations are not always defined alike in different societies. Carroll has argued that these ethical responsibilities are more ambiguous than legal requirements and hence more challenging for companies to anticipate and follow because they are not written law promulgated by governments. Though ethical category is depicted as the next layer of the CSR pyramid, it is discussed that there is an inherent link between ethical and legal responsibilities because ethical expectations can be seen to predict the emergence of new laws and regulations (Carroll, 1991.).Table 1.2 summarizes statements characterizing ethical and philanthropic responsibilities.

Economic Components (Responsibilities)	Philanthropic Components (Responsibilities)
1. Ethical norms go beyond laws and regulations	1. Managers and employees should participate in voluntary and charitable activities in their local communities.
2. Ethical norms should be recognized and respected	2. Providing assistance to the local educational institutions is a good practice
3. Ethical norms must not be compromised in order to achieve corporate goals	3. Contributing to those projects that improve the community's "quality of life" is important

Table 1.2: Ethical and philanthropic components of CSR (Carroll, 1991)

Finally, philanthropic responsibilities encompass activities in response to the expectations of society that businesses be good corporate citizens. These practices may include volunteer work to promote human welfare, sponsorship to local programs, donations to public and non-profit organizations, etc. Unlike ethical responsibilities, philanthropy is more discretionary and lack of engagement in voluntary actions is not perceived as irresponsible or unethical. However, there is always expectation from the community that the enterprises contribute to former activities. It has been argued that philanthropy is highly desired and appreciated but actually less important than the other three aspects (Carroll, 1991.).

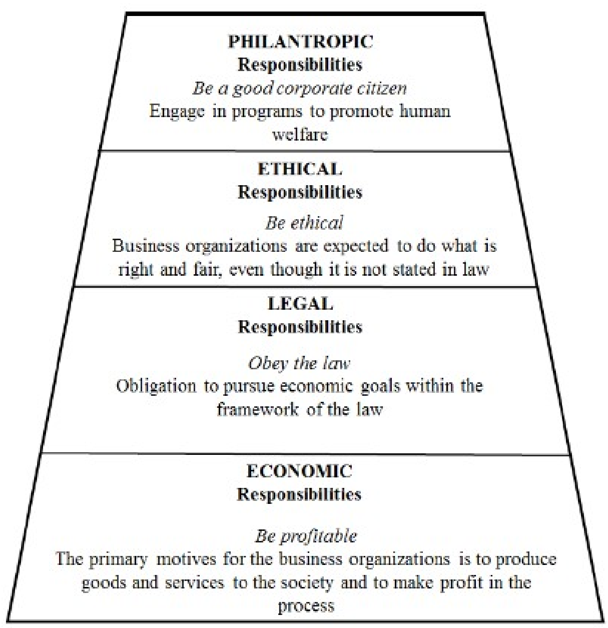


Figure 1.1: The pyramid of Corporate Social Responsibility (Carroll, 1991)

Carroll (1991) has presented the pyramid of CSR, which depicted four types of responsibilities as shown in Figure 1. However, contrary to popular belief, these layers of responsibilities are not designed in any consecutive way, nor are they mutually exclusive. It is possible, for instance, that a firm satisfies the legal requirements, but fails to meet its economic missions (Griseri & Seppala, 2010). The aim of the pyramid is to portray that the total CSR embraces distinct components. When these components are assembled together, they constitute the whole CSR concept (Carroll, 1991.).

Although the above definitions appear quite different in level of abstraction, they all emphasize socially responsible companies' concerns, which go beyond short-term profitability. The author will develop the study based on four components, adapted from the explained definitions, which are economic, environmental, social and ethical factors. Those four aspects will serve as the main theme in the empirical research; the voluntary basis will be also taken into account.

17.3. Meaning and Definitions of Corporate Social Responsibility

Corporate Social Responsibility (also named CSR, corporate conscience, and corporate citizenship) is incorporating environmentally responsible policies and activities into the company process and community of aorganization. CSR seeks to increase long-term revenues for online and offline companies by making them more effective and drawing constructive exposure to their activities.

CSR is denoted by a range of other terms such as social responsibility, social integrity, corporate ethics, corporate philanthropy, corporate citizenship or stewardship, responsible enterprise or ethical company and, to name a handful, 'triple bottom line.' When CSR concerns become gradually embedded into conventional market activities, there is a movement towards "ethical competition" or "corporate sustainability."

Like many of management and social science definitions, Corporate Social Responsibility is fraught with definitional problems, which makes it difficult for a uniform platform to assess firms' responsiveness to it.

Defining Corporate Social Responsibility is not easy. First, this is because Corporate Social Responsibility is an "essentially contested concept," being considered as valued "internally complex," and having relatively open rules of application (Crane et al, 2008). Second, Corporate Social Responsibility is an umbrella term overlapping with some, and being synonymous with other conceptions of business-society relations (Matten et al, 2003). Third, it has clearly been a dynamic phenomenon (Carroll, 1999).

Definitions were expanded during the 1960s and proliferated during the 1970s. In the 1980s, there were fewer new definitions, more empirical research, and alternative themes began to mature. These alternative themes included corporate social performance, stakeholder theory, and business ethics theory. In the1990s, Corporate Social Responsibility continues to serve as a core construct but yields to or is transformed into alternative thematic frameworks (Caroll, 1979). In the early periods of 2000s and of late Corporate Social Responsibility remains an emerging and elusive idea for academics and a contested issue for business managers and their stakeholders.

Owing to the range of contrasting definitions, the notion of Corporate Social Responsibility has led to the emergence of a variety of practices (Freeman 1984). In brief, the concept of Corporate Social Responsibility has evolved considerably since it first emerged in the 1950s (Carroll 1999). As a result there appears to be disagreement about what the term means, whether it should be implemented, how or why it should be implemented.

At the core, Corporate Social Responsibility is the idea that reflects the social imperatives and the social consequences of business success. Thus, Corporate Social Responsibility empirically consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. Yet, the precise manifestation and direction of the responsibility lie at the discretion of the corporation. Corporate Social Responsibility is therefore differentiated from business fulfillment of core profit-making responsibility and from the social responsibilities of government (Friedman, 1970).

Bowen (1953), set forth an initial definition of the social responsibility of businessmen is one of the early contributors on the concept, conceived Corporate Social Responsibility as business policies and decisions, which give values to the society. "*It refers to the obligations of businessmen to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society*" He argued that social responsibility is no panacea, but it is an important value that must guide business in the future.

Another early proponent of social responsibility, Frederick (1960), defines social responsibility as the use of society's resources; economic and human, in such a way that the whole society derives maximum benefits beyond the corporate entities and their owners. Keith Davis (1960), set forth his definition of social responsibility by arguing that it refers to "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest". He asserted that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long run economic gain to the firm, thus paying it back for its socially responsible outlook. His "*Iron Law of Responsibility*" held that "*social responsibilities of businessmen need to commensurate with their social power*". He further took the position that if social responsibility and power were to be relatively equal, then the avoidance of social responsibility leads to gradual erosion of social power on the part of businesses.

Joseph W. McGuire stated, "*the idea of social responsibility supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations*". He later elaborated by saying that the corporation must take an interest in politics, in welfare of the community, in education, in the happiness of its employees and in fact in the whole social world.

A landmark contribution to the concept of Corporate Social Responsibility came from the Committee for Economic Development (CED), which observed, "a business functions by public consent and its basic purpose is to serve constructively the needs of society to the satisfaction of society". The CED noted that the social contract between business and society was changing in substantial and important ways – Business is being asked to assume broader responsibilities with respect to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute to the quality of life rather than just supplying quantities of goods and services. In as much as business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public (CED, 1971). According to Votaw (1972), **s**ocial responsibility may also refer to an obligation, a liability, social consciousness, corporate legitimacy, charitable contributions, "do goodism", managerial enlightenment and so on.

Carroll (1979) defines corporate social responsibility as the entire range of obligations a business owes to society, and it encompasses the economic, legal, ethical and discretionary expectations that society has of organization at a given point in time. A good corporation is one, which "*Voluntarily shares its market power and resultant pecuniary gains and thereby yields accountability for its action and performance with those groups- who have been adversely affected by the power*."

According to the Canadian Center for Philanthropy, Corporate Social Responsibility is "*a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts*". This definition provides the link between the decisions tied to the social responsibility and the business derived from the respect of the lawyer instruments, the population, the communities, and the environment.

'The European Commission with the Green Paper –Promoting a European framework for Corporate Social Responsibility' (July 2001) better defines the concept of Corporate Social Responsibility as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfiling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders". The word "more" is underlined also in the original version of the document: in this way the European Commission wants to emphasize the lack of consideration for the different cooperating actors highlighting, for the future, the urgency of a severe increase of the sensibility and the cures and, at the same time, encouraging the enterprises to the investment in social responsibility as a vehicle for the best competitiveness and enlargement.

Patricia Ditzler (1983) defined Social Responsibility as "*a voluntary expenditure or activity by a corporation with charitable intent, for which marginal returns are less than those available from other alternative activities*". According to Donna Wood (1994) corporate social responsibility means "*a business organization's configuration of principles of social responsibility, processes of social responsiveness and observable outcomes as they relate to the firm's societal relationships*."

Backman (1975) considers social responsibility as other stated objectives by business, which are not directly related to economic, but rather address its negative externalities, improve employee's conditions and the societal quality life. The World Business Council for Sustainable Development (WBCSD, 1998) at its first dialogue in 1998 conceived Corporate Social Responsibility as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. More recently (WBCSD, 2000), the working group of the council convened series of global stakeholder dialogues and modified their earlier definition to include sustainable development.

According to Michael Hopkins (2003), Corporate Social Responsibility is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation. Jones cites the UK government's Department of Trade and Industry-sponsored Corporate Responsibility Group who defined Corporate Social Responsibility as: the management of an organization's total impact upon both its immediate stakeholders and upon the society within which it operates. Corporate Social Responsibility is not simply about whatever funds and expertise companies choose to invest in communities to resolve social problems, it is about the integrity with which a company governs itself, fulfils its mission, lives by its values, engages with its stakeholders, measures its impacts and reports on its activities. Corporate Social Responsibility is about the way businesses take account of their economic, social and environmental impacts in the way they operate-maximizing the benefits and minimizing the downsides.

17.4. Models of CSR

The struggle for defining the boundaries of corporate responsibility for environmental and social matters has been deep rooted in the business history. At the time of industrial revolution, those within and outside the business world have battled over the notion and extent of social responsibility. Over this time period, according to Ritu Kumar, David Murphy and Viraal Balsari (2002), four different models have been emerged. All the four models are relevant in the Indian context. The table 1.3 below gives an overview about four of these models.

S. No	Model Type	CSR Focus Area	Major Contributors
1	The Ethical Model	Voluntary commitment of companies towards welfare of the public	M. K. Gandhi
2	The Statist Model	State ownership and legal regulations	Jawaharlal Nehru
3	The Liberal Model	Corporate responsibilities solely towards owners	Milton Friedman
4	The Stakeholder Model	Corporate responsibilities in response to the needs of different stakeholders	R. Edward Freeman

Table 1.3: Models of Corporate Responsibility

17.4.1. Ethical Model of CSR

The philanthropic contributions by the companies are the main constituents of Ethical Model. During the period of independence, Mahatma Gandhi Proposed the Theory of Trusteeship which promotes the idea that wealth created by the businesses belongs to the society. This theory compelled the companies to take active part towards social wellbeing and to be committed to social and economic development.

17.4.2. Statist Model of CSR

The statist model come in to existence after independence when India adopted framework from socialist and mixed economy, with a large public sector and state owned companies. The composition of Indian regulations and laws along with the state ownership reflects the dimensions contained in CSR. In the early 1990s this corporate philosophy sponsored by state is still operating in many public sector companies that have survived the wave of privatization.

17.4.3. Liberal Model of CSR

The Liberal model states that the company has the responsibility towards the shareholders. Milton Friedman supports this view point by saying that increasing the profits is the sole responsibility of businesses. This model argued that it is sufficient for business to obey the laws and generate wealth, which through taxation and private charitable choices can be directed to social ends.

17.4.4. Stakeholder Model of CSR

The aim of stakeholder model is to create loyal relationship with all the stakeholders covering employees, customers, suppliers, investors and a commitment leading to sustainable and long run value, viability and success of business. In the era of liberalization, privatization and globalization, the companies have to compete not only on economic grounds but also needs to pay significant attention to social aspects. The increasing public awareness pushes the organization to take serious look over their impacts or otherwise have to face wrong postures of the public towards irresponsible acts of the companies. Therefore, companies have to provide answers to their acts and consequently have to satisfy the expectations of the stakeholders.

17.5 Summary

Borza (2011) argued that in order to establish a functional link between corporate social responsibility concept and practical implementation mechanisms at the company level, we consider that the specialist's opinions that have "tested" this mechanism are highly relevant. To define the context in which the corporate social responsibility operates and manifests, it is necessary to mention that business environment overlaps, almost completely, with the reference area of CSR. Thus, previous research has focused mainly on the effects of CSR on corporate financial performance. CSR has a positive effect on stock prices, and corporations with excellent CSR activities are more likely to show better financial performance in terms of their Return on Equity (ROE), Earning per Share (EPS), profit margin, and net margin, among others. This positive relationship between CSR and financial performance can improve the relationship between the corporation and its investors, and it can also have a direct effect on investors' investment decision. Previous research examining the role of CSR in marketing has focused mainly on customers. Corporate capacity and CSR, two main determinants of corporate relationships, can generate positive attitudes toward the corporation and its products as well as increase purchase intention. Customers have a tendency to buy goods made by corporations engaging in CSR activities if they cannot derive any benefit from competitive brands. The halo effect resulting from the CSR association can have a positive effect on the evaluation of the corporations and its brands, and CSR activities can limit brand devaluation in a brand crisis. Another effect of CSR can be found in the relationship between corporations and their employees. According to early research, employees are more likely to have confidence in corporations with excellent CSR activities resulting in higher organizational commitment, job satisfaction, and increased HRM capacity. Employees' job satisfaction, commitment, turnover rate, and job performance can different depending on what they perceive from actions

17.6 Key Words

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

17.7 Self Assessment Questions

1. What is the definition of the corporate social responsibility ?

2. What about Models of corporate social responsibility ?

3. To Discuss the brief of corporate social responsibility

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Dr.G. Ramesh

CORPORATE SOCIAL RESPONSIBILITY AS A BUSINESS STRATEGY FOR SUSTAINABLE DEVELOPMENT

18.0 Objectives

After reading this unit you should be able to

- Explain the concept of Business Strategy
- Examine the key challenges facing sustainable development;
- Describe the concept of Corporate Sustainability.
- Analyze the Corporate Response to Sustainable Development

Structure

18.1 Introduction

Within management jargon, Corporate Social Responsibility (CSR) is not a new concept, but is still a new area within certain countries markets. After the publication of Friedman's, (1970) thesis; that stated the only social responsibility of a company is to maximise profits, management scholars began to develop and write various theoretical concepts regarding the corporate social responsibilities of a company. During the last few decades much has been written on corporate responsibilities, corporate social responsibilities, stakeholder analysis, business strategy and competitive advantage (R Edward Freeman, 1984; Kulik, 1999; I. Maignan, Ferrell, & Hult, 1999; Porter, 1990, Scherer, Palazzo, & Matten, 2014, Barnett, 2016). Corporate enterprises, governments and the general public have started to regard an importance of CSR as a meaningful concept. People have also started to believe that the company has an obligation to use its resources in ways that benefit society; through its committed participation as a member of society; taking account of society at large and improving welfare within society at large, independent of direct gains of the company (Kok, Van Der Wiele, McKenna, & Brown, 2001); these are all important factors today. During the last few decades CSR has been regarded as a debatable subject by many scholars and practitioners; many are confused by the role it can play (A. B. Carroll, 1999). Many scholars continue to discuss the role and nature of social responsibility of a company within society; in other words, the real purpose of a company's very existence. Is it merely to generate a return (profits), or along with profit are there any other responsibilities that a company has towards its stakeholders. Until recently, scholars have believed that a company should not expect any financial and/or non-financial return from their CSR initiatives; however, most recent arguments revolve around the relationship between CSR and a company's performance (Orlitzky, Schmidt, & Rynes, 2003). Furthermore, the debate is about how they should be responsible to society at large, rather than the ways they make a contribution to society. Against this backdrop it is importance to confirm whether there is a new meaning for corporate social responsibility; this involves examining the greater needs for a corporate responsiveness to all stakeholders against the larger demand from the shareholders for company higher performance.

18.2 Theories of CSR

Since there is a great heterogeneity of theories and approaches of CSR, it is important to note the analysis done by Secchi (2007) and it is compared with an analysis by Garriga and Mele (2004). Secchi has come up with a group of theories based on a criterion what role the theories confer to the corporation and society. The theories are as follows: 1) The utilitarian theory, 2) The managerial theory, and 3) The relational theory. On the other hand, Garriga and Mele's (2004) analysis maps CSR into four types of territories. They are: 1) Instrumental theories, 2) Political theories, 3) Integrative theories, and 4) Ethical theories. There is no doubt that some similarities do exist in both conceptualizations of CSR and the discussion are be based on emphases and approaches.

18.3 CSR: Social Endeavour or Business Strategy

With the many developments amongst global scholars, one school of thought believe CSR should be used mainly as a social endeavor and the other thinks that it should be linked to the corporate strategy for financial performance.

Both Carroll and Freeman focus on the economic/shareholder perspective and philanthropic/social harmony perspective of CSR.

Oliver's Typology (1991) suggest five strategies to confront CSR; the first two of them are "acquiesce" (acceptance of CSR values) and "compromise" (modifying CSR initiatives to suit its own needs). Roberts' (2003) presents a theory of four manifestations of CSR; he presents the necessity and potential of dialogue across the corporate boundary with those most vulnerable to the effects of corporate conduct and the "responsible director" i.e. getting Organisation wide support to suit the organisational needs. More recent research have progressed towards theory development as well as empirical tests of the relationship between CSR and company performance (Aguilera, Rupp, Williams, & Ganapathi, 2007; Orlitzky et al., 2003). At the same time CEO's globally believe that addressing societal expectations is an importance consideration for competitive success (McKinsey and Company, 2006).

Corporate philanthropy started from the donation of cash/goods to individuals and charities following good days resulting from organisations believing it to be the right thing to do. Business practices based on ethical and moral principles were advocated by pre-Buddhist and pre-Christian thinkers in the early centuries of civilisation e.g. Cicero in the first century and Kautilya in the fourth century BC. According to Weeden (1998), over time, organisations started focusing on the donation of cash and goods to an identified direction or to a particular theme that has some relationship to the company's core business; this practice is called strategic philanthropy. Today globally, organisations are under tremendous pressure to increase their financial performances and investors are escalating their demands on corporations to maximise shareholder returns. Reich, (1998) explains that the compensation for top corporate officers is more tightly linked to share price than ever before.

Therefore, it is appropriate to re-look at the way CSR is viewed in the modern era by corporate organisation's. The issue here is not whether companies should be somehow responsible to society, but rather how they should be responsible. Modern day investors need to view their financial gains from their investments in CSR initiatives (Reich, 1998).

18.4 The Evolution of CSR

It is interesting to discover the reasons why a corporation is socially responsible whilst making a profit, as opposed to purely making a profit. Questions like, why do corporations need to be socially responsible and what if they are not responsible socially when running their businesses? Academics and practitioners have been searching for answers, using various arguments for years and years.

If we go back in history, although the word CSR was created in the recent past, the practice of the very basic principles can be found in ancient civilization which goes as far back as the inception of trade and commerce. In the era of Babylon (1760), King Hammurabi, created a code that protected the slaves by foreboding the separation of slaves from their families. Also during the King Louis XIV of France reign, an ordinance was created that introduced measurers to preserve the French forests (Esposito, 2009).

Some suggest that social responsibility refers to businesses' decisions and actions taken for reasons, at least partially, beyond the company's direct economic or technical interest. Since late 1950, academics and practitioners have argued that corporation's are socially responsible to society in different ways and one research after another has been completed to prove this point. Eells & Walton (1961) argued that CSR refers to the "problems that arise when corporate enterprise cast its shadow on the social scene and the ethical principles that ought to govern the relationship between the corporations and society."

The early roots of business organisations engaging in corporate social responsibility can be found in 1917, when Henry Ford said that the aim of the Ford Motor company is "To do as much as possible so everybody concerned can make and use money; give employment, and send out the car where the people can use it …. and incidentally to make money" (Lee, 2008). This was followed by his great-grandson, William Clay Ford Jr stressing that "the Ford company valued all stakeholders' interests, as well as the social welfare of its employees and shareholders, including making a better place for all of us" (Meredith, 1999, p.157). Although Ford's statement arises from a business perspective; an academic research perspective was put forward by Bowen's, (1953) article on Social Responsibility of business and is regarded as the first work to discuss the corporates role in society (Carroll, 1979; Wartick & Cochran, 1985).

A study was undertaken in 1966 by the Subcommittee on Business Structure and Performance under the chairmanship of David E. Lilienthal to identify the real role of a business corporation. At the initial stage the subcommittee devoted its main attention to defining the economic objectives, which a satisfactory business structure might be expected to serve and to recommend how the performance in meeting these objectives might be evaluated. However, after 1967 they shifted their interest to the social problems, which might be ameliorated by the efforts of business, especially large, professionally managed corporations. In this exercise the Committee for Economic Development (CED) in 1971 utilised a three concentric circles approach to explain CSR.

The inner circle properly explained the basic economic functions such as jobs, growth and products; the intermediate circle explained that the economic functions must be exercised with a sensitive awareness of changing social values and priorities; whilst the third one, the outer circle explained newly emerging and still amorphous responsibilities that business should assume to become more actively involved in developing the social environment.

During this period, some academics started talking about the social responsiveness instead of social responsibility (Iamandi, 2007). The simple argument put forward by them was the emphasis on responsibility, focused merely on the notion of business obligation and motivation and action or performance were overlooked. This movement kept on emphasising corporate action, pro-action, and implementations of a social role. This new approach to a certain extent led academics and practitioners to think in a new dimension.

Also during this same period a much debated argument was put forward by Friedman (1970); he said that “business” has responsibilities, but only people can have responsibilities. A corporation is an artificial person and they may have artificial responsibilities. Therefore, the only social responsibility of business is to increase its profits. This sparked like nothing before and thereafter many academics argued and proved in many different ways that Friedman was wrong and that a corporation has a responsibility towards the well-being of society. Carroll has contributed greatly to the establishment of a proper mechanism for corporate social responsibility within a company during the late 1970’s and 1980’s. When one school of thought argued social orientation, another started building corporate social responsibility into corporate strategy as a new dimension. However, the question still remained on how to reconcile the company’s’ economic orientation with its social orientation.

(KHakabadse, Rozuel, & Lee-Davies, 2005) summarised the evolution of CSR research since 1950 as shown in Fig. 1.

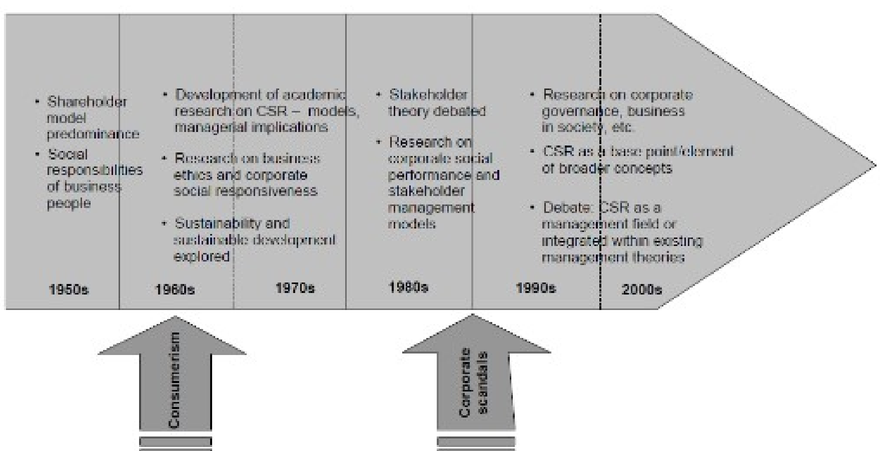


Figure 18.1. The Evolution of CSR research Source: (Kakabadse et al., 2005)

18.5 The Definition of CSR

Although the ward CSR is a recent popular term, a pre association of business ethics and the social dimensions of business activity has been in existence for a very long time. Doing business with some moral principles was advocated by western and eastern thinkers such as Cicero in the first century BC and Kautilya in the fourth century BC respectively. Esposito (2009) shows that the first to introduce and define the term CSR was a Christian Pastor named Rev. Bowen in 1953. Bowen explains that the duty of a businessman is to create policies, take decisions and follow lines of action that are socially desirable and are in line with social values and objectives. He also emphasised that firms need to be cognisant of business ethics to achieve long term superior performance.

Throughout the past 60 plus years' different authors have used different concepts to describe and define CSR e.g. corporate social performance, corporate social responsiveness, corporate citizenship, corporate accountability, corporate sustainability, corporate governance and corporate social entrepreneurship.

According to Maignan & Ferrell, (2004), the different viewpoints of CSR can be categorised into four: CSR as a social obligation; CSR as a stakeholder obligation; ethics driven CSR and CSR as a managerial process.

Further, during the last few decades some CSR activities protected companies when negative publicity emerged (P C Godfrey, Merrill, & Hansen, 2009); some have supported not just the growth of sales but employment/investment too (Sankar Sen, Bhattacharya, & Korschun, 2006) and some with higher CSR ratings have attracted more human capital (Carmeli, 2005).

"The term [social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in an ethical sense; to still others, the meaning transmitted is that of "responsible for," in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for "legitimacy;" in the context of "belonging" or being proper or valid; a few see it as a sort of fiduciary duty, imposing higher standards of behaviour on businessmen than on citizens at large (Masaka, 2008).

(Kakabadse et al., 2005) summarises various definitions of CSR in both the academic perspective and the business and civil society perspective in table 18.1and table 18.2

Table 18.1 CSR Related Concepts and Definitions

CONCEPTS	AUTHORS
Integrative	(Davis, 1973), (Carroll, 1979), (Varadarajan & Menon, 1988), (Brown & Dacin, 1997), (Sankar Sen & Bhattacharya, 2001), (Luo & Bhattacharya, 2006)
Voluntary	(Jones, 1980), (Abagail McWilliams & Siegel, 2000), (M. L. Barnett, 2007), (Mackey, Mackey, & Barney, 2007)
Economic	(Friedman, 1970), (Backman, 1975) and (Campbell, 2007)
Public	Steiner and Richman (1971), (Smith, 2003), (Buchholz, 1977), (Sethi, 1979), (Zenisek, 1979)

Source: Literature Review

Table18.2 CSR Definitions from Business and Civil Soceity Perspective

Author	*Definition*
Bowen (1953)	[CSR] refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.
Frederick (1960)	Social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms.
Friedman (1962)	There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.
Davis and Blomstrom (1966)	Social responsibility, therefore, refers to a person's obligation to consider the effects of his decisions and actions on the whole social system.
Sethi (1975)	Social responsibility implies bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values, and expectations of performance.
Carroll (1979)	The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time.
Jones (1980)	Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract.
Wood (1991)	The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities.
Baker (2003)	CSR is about how companies manage the business processes to produce an overall positive impact on society.

Table 18.3 CSR as a Social Obligation

Organisation	*Definition*
World Business Council for Sustainable Development (WBCSD) (2003)	Corporate Social Responsibility is business' commitment to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life.
CSR Europe (2003)	Corporate Social Responsibility is the way in which a company manages and improves its social and environmental impact to generate value for both its shareholders and its stakeholders by innovating its strategy, organisation and operations.
Organisation for Economic Co-operation and Development (OECD) (2003)	Corporate Responsibility involves the 'fit' businesses develop with the societies in which they operate. […] The function of business in society is to yield adequate returns to owners of capital by identifying and developing promising investment opportunities and, in the process, to provide jobs and to produce goods and services that consumers want to buy. However, corporate responsibility goes beyond this core function. Businesses are expected to obey the various laws which are applicable to them and often have to respond to societal expectations that are not written down as formal law.
Amnesty International – Business Group (UK) (2002)	Companies [have] to recognise that their ability to continue to provide goods and services and to create financial wealth will depend on their acceptability to an international society which increasingly regards protection of human rights as a condition of the corporate licence to operate.
The Corporate Responsibility Coalition (CORE) (2003)	As an 'organ of society', companies have a responsibility to safeguard human rights within their direct sphere of operations as well as within their wider spheres of influence.
Novethic (2003)	Linked to the application by corporations of the sustainable development principle, the concept of CSR integrates three dimensions: an economic dimension (efficiency, profitability), a social dimension (social responsibility) and an environmental dimension (environmental responsibility). To respect these principles, corporations must pay more attention to all the stakeholders […] which inform on the expectations of civil society and the business environment.
Unilever (2003)	We define social responsibility as the impact or interaction we have with society in three distinct areas: (i) voluntary contributions, (ii) impact of (business's direct) operations, and (iii) impact through the value chain.
Novo Nordisk (2003)	Social responsibility for Novo Nordisk is about caring for people. This applies to our employees and the people whose healthcare needs we serve. It also considers the impact of our business on the global society and the local community. As such, social responsibility is more than a virtue – it is a business imperative.

According to Collins Dictionary "social" means relating to society or the way society is being organised. Merriam Webster suggests that an obligation is something that a person must do because it is morally right. The first definition on CSR given by (Bowen, 1953) was based on the belief of social obligation. Later on many scholars have followed in his footsteps and even prescribed methods in which organisations should fulfill this obligation (A. B. Carroll, 1979; Sankar Sen & Bhattacharya, 2001). Based on the above viewpoints, academics and practitioners believe that an organisation should engage in activities which are desirable and are in-line with social values and objectives. Much work has been done by Carroll, (1979) in this regard and most importantly the CSR pyramid that she introduced plays a bigger role in defining CSR, as shown in Fig.2.2. As illustrated previously, Economic responsibility is the fundamental to all, especially when it comes to the corporate world. Every organisation strives to achieve profitability in order to gain investor confidence. The simple argument is that if an organisation is not achieving profits, it may not be able to survive as an ongoing business entity. In such a case, taking care of other social issues or acting in a socially responsible manner may not be possible. But the fact remain that profitability should be achieved in an ethical manner.

Carroll, (1991) agrees with authors such as Friedman, that only a certain criteria like that of economic responsibility as a fundamental cause for a business entity. Based on the economic criteria, Carroll also states that a corporate should strive to achieve the other three responsibilities shown in the pyramid.

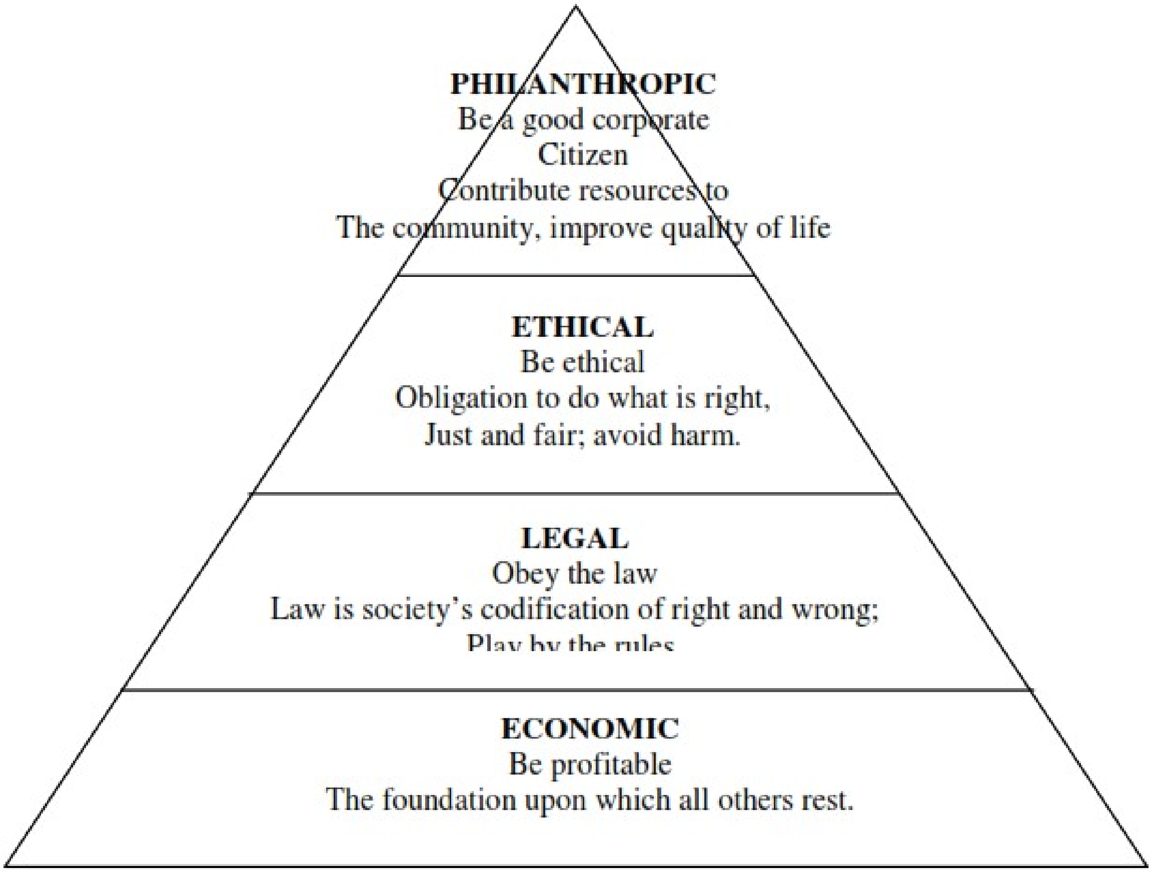


Figure 18.2 Pyramid of Social Responsibility

The next tier in the pyramid is legal responsibility. Businesses are expected to obey and adhere to the legal practices of a country or the market at large. Corporations should maximise the economic objectives within the framework of law. According to Carroll legal responsibilities reflect a view of "codified ethics" defined by law makers of a country.

Ethical responsibilities on the other hand, go beyond what is dictated by law of a country or codified into law. It incorporates the societal values and beliefs which require certain norms to be adhered to. These standards should comply ethically for norms, standards and expectations that are basic requirements of consumers, employees, shareholders, and the community and are regarded as fair, just and protecting the morale rights of stakeholders. This also interplays with the legal responsibility of a country. In other wards it morally demands all operations to be above the law as a best practice when running a business.

The final tier of the pyramid is philanthropic responsibility. This is the public expectation that a corporation is a good corporate citizen, which includes the active engagement in promoting human welfare or goodwill. Philanthropy is more discretionary or voluntary, whereas ethical demands one's adherence requirement. Although many organisations fulfil economic, legal and ethical responsibility, only a handful fulfil their philanthropic responsibilities. According to Visser, Matten, Pohl, & Tolhurst (2010) unlike economic, legal and ethical responsibilities, philanthropy falls into the social sphere and it is outside of a corporation's core operations.
Furthermore. Carroll expounds that it is essential that organisations adhere to the lower elements of the pyramid, whilst the higher order elements are not critical for the organisation to function, but are very important for continuous growth. Despite this model being one of the most widely cited models on CSR, several scholars and authors have challenged its

accuracy and reliability (Geva, 2008; Visser, 2006). Although some consider this as a universal model, research conducted outside the USA reveal a different view point on CSR.
For example in Visser's (2006) article "Revisiting Carroll's CSR Pyramid, an African perspective" it is clearly shown that the elements in the model has no relevance to Africa. Some authors criticise Carroll for defining the elements in the pyramid too narrowly (Geva, 2008; Visser, 2006); thereby not explaining how each element interacts and integrates with the others. Harrison, (1997) cites a model by (Peach, 1987) that compares the effect that an organisation has on the community it operates within ,to a stone being dropped into a pond where the initial impact is low. Figure 3 shows the basic level responses, which respectable companies deliver in order to protect their reputation and maintain goodwill. Organisations, that have reached the second level, intend to minimise the negative impact its operations have on society and the environment. At the highest level, at which only a few organisations operate, the responsibility for a healthy society or to remove/alleviate ills in society is embraced.

Level 3 Responsibility for a healthy society, Remove/alleviate social ills
Level 2 Minimize negative effects, Acts according to law
Level 1 Pay taxes, observe the law, Fair deals

Figure 18.3: Impact of business on the surrounding environment Source: Cited in Harrison (1997)

This widely cited and famous stakeholder perspective, is also coming under much criticism. (Branco & Rodrigues, 2007) states that the stakeholder perspective fails to take into account environmental and future generational issues. These stakeholders have an overbearing effect on an organisation's CSR decisions. For example, the organisation's CSR initiative to clean a forest, protect flora, and fauna may not directly be considered as providing a benefit to any stakeholder group. Instead, it will be a measure to protect the ecological environment and ensure that resources are sustained for future generations.

18.6 CSR as Social Responsiveness

During the 1970's and early 80's, the term social responsiveness was being popularised and some considered it as a replacement for social responsibility. Some believe that social responsiveness is a more positive and accurate term than social responsibility as many corporations have already recognised their responsibility (i.e., obligation) to society and now are reacting to these demands in diverse ways (Arlow & Cannon, 1982). According to Wartick & Cochran, (1985), a social responsiveness approach defines CSR in terms of a concrete organisational process and it is considered as Corporate Social Responsiveness.
According to Ackerman, (1975) there are three steps in Corporate Responsiveness: • Scrutinizing and appraising environmental conditions;
• Attending to the demands of the stakeholders;
• Devise plans and policies in order to enhance and maximise the positive impact that the company has on different parties through its activities.

18.7 CSR as a Strategy

Carroll's model (1991) as explained previously does not consider CSR in a strategic perspective; whereas Lantos classifications of CSR takes a different perspective (Lantos, 2001). The following explains the three types of CSR, which are mutually exclusive; as discussed previously, ethical CSR corresponds with Carroll's economic, legal and ethical responsibility. Altruistic CSR corresponds with Carroll's philanthropic responsibility. Today most organisations focus on strategic CSR, as it provides a win-win situation to both the organisation and society.

ETHICAL CSR

- Fulfilling the economic, legal and ethical responsibilities
- These are mandatory in nature and every organisation is expected to be responsible in these three areas.

ALTRUISTIC CSR

- Fulfilling philanthropic responsibilities not stipulated by law
- It goes beyond being ethical (preventing harm) to alleviating societal and environmental issues.
- Companies engage in it regardless of whether or not it is beneficial them the organization.

STRATEGIC CSR

- Philanthropic actions which are both beneficial to society and the organisation
- It helps the organisation to achieve strategic objectives and boost financial returns.
- It helps to fulfil and balance the responsibility to shareholders and stakeholders.

Figure 6: Type of CSR Source: Adapted from (Lantos, 2001)

(Baron, 1995) explains that with the discussion of stakeholder relation management in CSR, more and more scholars have started valuing CSR issues from an integrated strategy aspect. To further explain this, (Isabelle Maignan & Ferrell, 2004) show that organisations respond in a socially responsible way when they align their behaviours with the norms and demands embraced by main stakeholders. Furthermore, they develop a framework to analyse the antecedents and outcomes of organisational CSR behaviour from a major stakeholder perspective.

Aguilera, Rupp, Williams, & Ganapathi, (2007) also explain the social change process, stakeholder-company relations, the role of stakeholders and how stakeholders influence organisational strategy through the mechanisms. As far as strategic CSR is concerned, McWilliams & Siegel, (2011) point out that CSR, which is embedded in an integrated strategy, may be labeled “strategic CSR”. They further elaborate that it will lead to a sustainable competitive advantage.

(Lawton, 2011) emphasises the need to pay more attention to the ethical aspects of their subject, as failure to do so will weaken the community conceptually and thereby undermine its credibility and legitimacy”. When analysing the definition of CSR, it is clear that there are many different perspectives on CSR and each perspective focuses on a different aspect. According to Marrewijk, (2003), although there is an abundance of definitions the problem is that most are biased towards specific interests and therefore prevent the development and implementation of the concept. This thesis will focus mainly on CSR as a social and stakeholder obligation. For the purpose of this thesis CSR will be defined according to the conceptualisation of McWilliams & Siegel, (2001).

CSR is an action in which a company goes beyond legal requirements and the interests of the company by creating compliance standards which require engagement in actions that appear to further social good (McWilliams & Siegel, 2001).

18.8 Reasons for Organizstions to Engage in CSR

It is important to find out why companies engage in CSR initiatives. The work completed by Haigh & Jones, (2006) identifies many factors that influence organisations to engage in CSR. Those factors are internal pressures on business managers from various parties; pressures from business competitors,; investors; expectations of customers; regulatory pressures coming from governments and non-governmental organisations. What organisations believe is required to overcome these various pressures from different groups, determines how they engage in CSR activities.

Chen (2011) discovered that there are two main reasons why organisations engage in CSR; one is to comply with legal standards, the other is to respond to external constraints. The important point that Chen (2011) mentions is business leaders do not truly understand CSR, and its advantages, instead they are forced by exogenous factors.

18.8.1 The Argument against

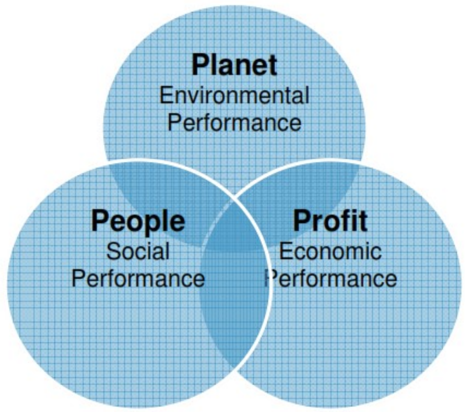
CSR Today corporations use CSR as a tool to increase their image and character; Whilst the world argues about the validity of using CSR for these purposes.

Beckmann (2007) believes that although customers of organisations liked CSR; simultaneously they tend to be skeptical and cynical in their views. Other than the obvious heavy expenditure reason of CSR, which may not be sometimes beneficial in the short term; (Friedman, 1970) argues that the very existence of CSR policies in the organisation may create many issues. Friedman points out that the funds spent on CSR should be reinvested in various other projects or ideally, be distributed among the shareholders. Karnani (2012) also shares the same view with Friedman and argues that trying to be good to society may reduce profits and it is a violation of the duty of a manger; also stating that it is the duty of the government, civil society watchdogs and non-profit organisations to protect society.

Vogel, (2008) states that customers purchase products based on price, quality and convenience; and do not merely consider the amount of money a company may spend on building corporate virtue. (Auger, Devinney, Louviere, & Burke, 2010) also supports this argument through their research. They found that only the most important social features of products would make a difference in the customer's mind and especially when functional features are satisfied. Vogel, (2008) gives practical examples to prove his point that CSR doesn't always bring returns and states that it does not always reflect positively on share prices. This literature review revealed that there are different arguments as to whether CSR will be beneficial to an organisation in the long term. The question is not whether companies should behave in a responsible and ethical manner; instead it should focus on whether companies should go that extra mile, whilst spending millions to build their reputation for being responsible.

18.8.2 Sustainability

Corporations in the past regarded CSR as making a donation, e.g. distributing food, water etc. Sometimes it was treated as a function of one department. Today organisations globally consider social responsibility as a sustainability measure that ensures the company's future remains as bright as the present. There has been a growing awareness regarding environmental regulations and "green management in the recent past (McGee, 1998; Starkey & Crane, 2003). Menon & Menon (1997) introduced a strategic framework to measure the importance of the congruence of environmental concerns, social performance goals and marketing strategy. Most importantly (RUSSO & FOUTS, 1997) also provided statistical evidence from 243 companies to prove that environmental performance is positively correlated with corporate financial performance. When it comes to sustainability, the argument is not about exploring the current resources excessively, but rather to reserve these for future generations; this also ensures the future earning potential of the company is uncompromised.



Today corporations are required not only to be concerned about their profits, but also to pay attention to people and the planet. A measurement tool has been introduced to gauge the level of sustainability, this is called the triple bottom line. The triple bottom line encourages companies to go beyond merely maximising the traditional financial bottom line, but to also identify the impact that has made upon people and the planet.

18.8.3.CSR and Strategy

Priem & Butler, (2001) explain that the resource-based view (RBV) can be a meaningful way of looking at CSR as a strategy and they indicate that it will help researchers to transfer actionable prescriptions to practitioners.

Currently there are an insufficient number of studies being conducted into CSR in relation to the resource-based view (McWilliams, Siegel, & Wright, 2006; Abagail McWilliams & Siegel, 2001; RUSSO & FOUTS, 1997). RBV will help CSR to be viewed as a strategy to judge intangible assets such as good corporate image (Gardberg & Fombrun, 2006), corporate reputation (Hall, 1992), and customer satisfaction (Luo & Bhattacharya, 2006). Cheng, Ioannou, & Serafeim, (2014) found that superior performance of a company in relation to CSR leads to better access to financial resources.

It is generally accepted that strategic CSR helps both the organisation and society to have a win- win situation. The objectives of organisations to engage in strategic philanthropic actions are to improve financial and market performance, whilst directly or indirectly benefiting society and stakeholders at large. Burke & Logsdon (1996) say that the initial cost incurred on strategic CSR should not be considered as a mere expense, instead it should be considered as a strategic investment for long-term growth. They developed a model based on the principle that when CSR is linked to the core strategy of the organisation, it will create value for the organisation.

The model illustrates five strategic dimensions and demonstrates that those will measure the value created by CSR initiatives.

The first dimension is centrality i.e. aligning CSR to the overall strategy and future of the organisation. Kanter, (1999) finds that when organisations align CSR to the central strategy it develops new competencies and resources, whilst providing a solution to the social problem.

He also mentions that these can then be transferred to achieve the core business mission of a company. Husted & Allen, (2009) also argue on the same line and show that initiating CSR within the company's expertise will lead to more control and allow ease of monitoring compared to initiatives which have little or no relationship to the company's core competencies.

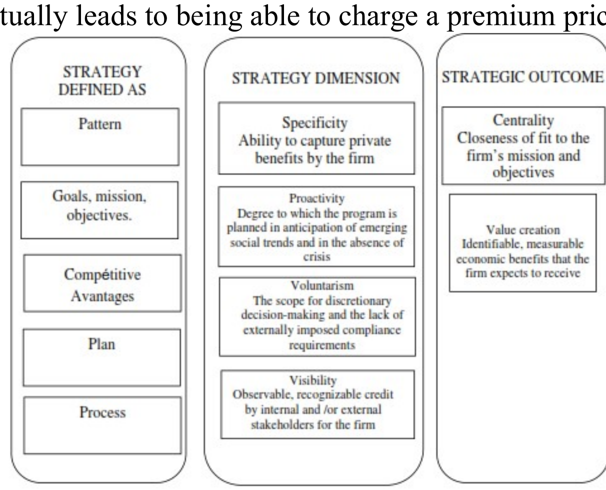
The second dimension is specificity i.e. the deriving benefits of CSR initiatives must be enjoyed by the company or it is the ability to tie the social objectives of the financial benefits. McWilliams & Siegel (2001) supports this by explaining that tying CSR attributes to an organisation's products will generate differentiation in the market place.

In general, product differentiation leads the organisations to charge a premium price, thereby creating more value for the company.

The third dimension is pro-activeness i.e. creating new opportunities by early implementation of CSR initiatives. Groza, Pronschinske, & Walker, (2011) show that proactive CSR would render more positive responses from customers. Pro-activity is being more accretive in response to the social trends in the environment. Meznar & Nigh, (1995) and Schmidheiny, (2006) state that pro-activeness creates innovation, as they tend to have better market intelligence.

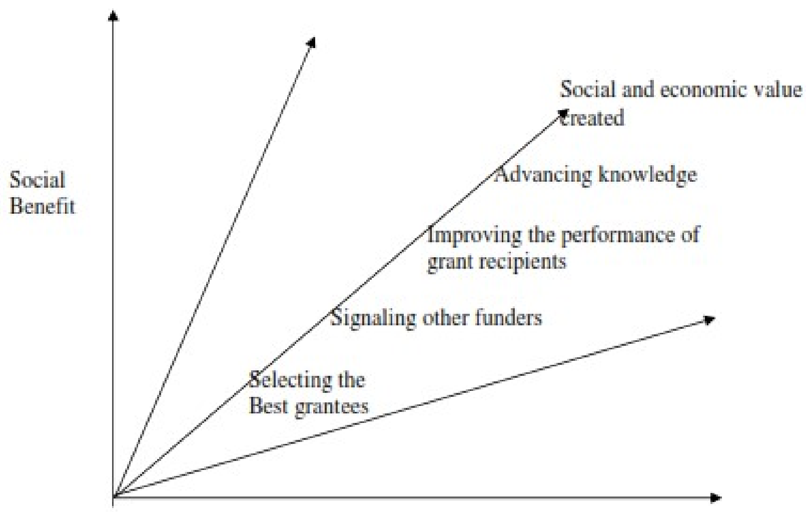
The fourth dimension is the voluntarism i.e. the selection of CSR initiatives will be completed using the organisation's own judgments without any external interferences. Carroll too explains this in his CSR pyramid concept.

The fifth dimension is visibility i.e. the ability to make CSR initiatives positively visible to external and internal stakeholders. Work done by (P. W. Roberts & Dowling, 2002) shows that a strong corporate reputation always helps to create value which is difficult to imitate by competitors and it leads to competitive advantage. Visibility generates financial benefits by providing the ability to differentiate the product based on its responsiveness to social demands, which eventually leads to being able to charge a premium price in the market place.



Tang, Hull, & Rothenberg, (2012) propose that an organisation bottom line is shaped by the way a company engages in CSR activities. This is shown in the recent research work completed for CSR and Corporate Financial Performance (CFP). They argue that when a company engages consistently with CSR and stressed the CSR dimensions, it increases the CFP. Sahut et al (2014) found in various studies that the relationship between sustainability and performance creates a positive link.

Corporate Philanthropy Corporate philanthropy is a widely discussed topic by both academics and practitioners. They also talk widely on the strategic relevance of corporate philanthropy. The pyramid of social responsibility introduced by Carroll, (1991) and Burke & Logsdon, (1996) model on the strategic dimension for value creation have proposed philanthropy as a key element in CSR. Carroll, (1991) explains that corporate philanthropy is a voluntary action by organisation's to uplift society and it is not bound by the given laws or ethics. Managers in organisations always face a dilemma on the ways to engage in charitable work, as they should always justify their expenditure against the bottom line. Porter & Kramer, (2002) bring a solution to this by suggesting organisations combine social and economic benefits; which is called strategic philanthropy. "Philanthropy can be the most cost effective way for a company to improve its competitive image, enabling companies to leverage the efforts and infrastructure of non-profit and other institutions" (Porter & Kramer, 2002). Furthermore, authors suggest four ways in which corporate donations can be used to gain competitive advantage whilst providing a greater benefit to society.



18.8.4 Economic Benefit

Source: (Porter & Kramer, 2002) Porter and Kramer highlight the importance of building strong relationships with non-profit organisations to carry out philanthropic work. It is vitally important to select the correct grantee who is able to effectively execute the actions, as well as being in-line with the strategies of the organisation. In order to provide greater financial assistance and expertise, it is also suggested that cross-joint operations with other organistions, with similar aims regarding the selected CSR initiative are developed. The additional funding, expertise and knowledge will improve the performance of the recipients, enabling them to accumulate advanced knowledge. This expertise, knowledge and financial assistance generated by a few large corporations will eventually assist the development of new solutions to social issues. In this process, with the help of non-profit organisations, the donor organisations will also gain knowledge and raise the probability of developing new innovative and profitable products.

In this process it is clear that not only society gains benefit from strategic philanthropy, but the organisation is also able to develop and create a market for their new product. Some interesting work by Green & Peloza, (2011) has been undertaken into the creation of value for customers through CSR. They found that CSR initiatives could provide emotional, social and/or functional value to customers. They talk about the different CSR actions undertaken by companies and the value customer's attach to these actions; which then lead to the generation of positive behaviour in the customer, such as product loyalty, willingness to buy and product referral. Green & Peloza, (2011) found that customers gain emotional value when purchasing with a social or environmental attribute. It is important to see how social value can be derived; according to Green & Peloza, (2011) social value is derived from purchases of brands which aggressively engage in CSR initiatives, thereby making peers make positive judgments about one's purchase. Functional value is also important to customers and the findings reveal that customers do not necessarily look for functional values, however, without functional values it is difficult to sell products. Functional value can be referred to, as aspects of CSR that relate to the actual benefit the consumer receives from the product or service. Their research emphasised the importance of practicing functional CSR by corporation.

18.9 Pro-activeness in CSR

Proactive CSR involves business strategies and practices adopted voluntarily by organisations that always go beyond the mandatory or regulatory requirements within a business environment and thereby contributes extensively and positively to society. The Burke & Logsdon (1996) model identifies pro-activeness as a strategic dimension and recommends that it creates value for the organisation. Husted & Allen (2009) further elaborate and give a few characteristics of a proactive organisation such as; they are constant scanning the social environment to identify trends and new developments, ensuring the organisation is compliant with any new social expectations; they are pioneers in the area of adopting organisation practices and policies in accordance with changing social expectations; they track the development process of new government regulations with the intention that the organisation has in place corporate compliance mechanisms, even before the legislation is enacted.

Organisations can be adjudged as operating along a line of CSR ranging from reactive to proactive in nature. The assumption here is that every company has a social responsibility; assessing to what degree and type of CSR strategies an organisation uses in order to meet these responsibility. Carroll (1979) and (Groza et al., 2011) explain that companies engaging in reactive CSR are characterised by deploying only the minimum, standard level required for CSR initiatives; this does not imply however that these companies are acting irresponsibly, it is simply that they do not see CSR as a tool to achieve a competitive advantage.

Conversely, companies engaging in proactive CSR are characterised as willingly adopting strategies that go beyond regulatory requirements in order to manage social responsibility issues as a competitive priority" (A. B. Carroll, 1979; Du, Bhattacharya, & Sen, 2007; Groza et al., 2011). Schmidheiny (2006) suggest that proactive organisations gain business intelligence, as they are much more proactive and vigilant to social trends in the environment and it can sometimes lead to innovations.

18.9.1 CSR and Resource Mobilisation

A resource is a stock or supply of money, materials, staff, and other assets that can be drawn on by a person or organisation in order to function effectively. According to the Business Dictionary it also can be defined as "an economic or productive factor required to accomplish an activity or as a means to undertake an enterprise and achieve the desired outcome. Three of the most basic resources are land, labor, and capital".

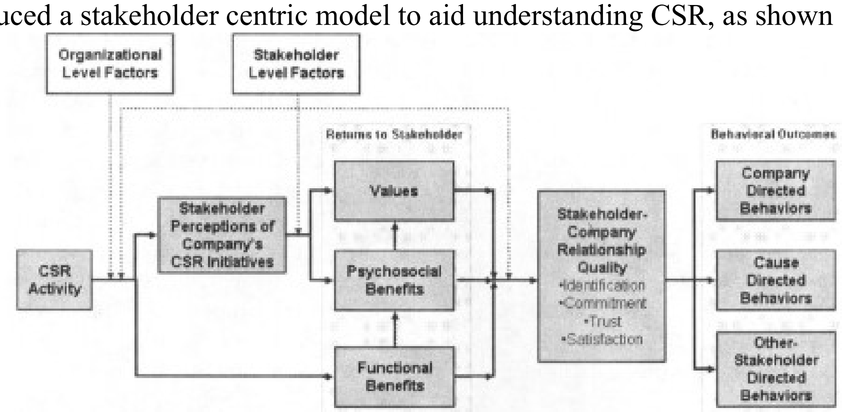
A major facet of strategy is concerned with matching internal resources with a changing external environment in a way that enhances organisational performance over-time (Andrews, 1987; Learned, Edmund Philip, Carl Roland Christensen, Kenneth R. Andrews, 1966). Further studies completed by researcher's concerned resources that have various attributes attached to them, such as; activities (Porter, 1985), assets (Dierickx & Cool, 1989), core competencies (Prahalad & Hamel, 1990), and dynamic capabilities (Teece, Pisano, & Shuen, 1997).

Branco & Rodrigues, (2006) suggest that CSR activities may have internal benefits by supporting a company's development of totally new resources and capabilities, it can also lead to important consequences relating to the creation or depletion of intangible resources. Specificity refers to the degree to which resources are leveraged to capture or internal is at least some benefits from engaging in CSR that are specific to the company, rather than simply creating collective goods which can be shared by others in the industry, community or society at large (Porter, 1985; RUMELT, 1980).

Sen, Du, & Bhattacharya (2009) discovered that the active involvement of employees as an internal resource leads to improved CSR initiatives.

18.9.2 CSR and Stakeholders

It is obvious that for any CSR initiative to be successful it should deliver benefits to its stakeholders. Freeman, (1984) mentioned the concept of "stakeholders" as the Principle of Who or What Really Counts; that is, who (or what) are the stakeholders of the company? and to whom (or what) do managers pay attention? Some define stakeholders as primary and secondary and give many connotations to primary and secondary, such as, who owns capital as primary and owners of intangibles as secondary (Mitchell, Agle, & Wood, 1997). Freeman, (1994) defines stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives". (C. B. Bhattacharya, Sen, & Korschun, 2008) produced a stakeholder centric model to aid understanding CSR, as shown in Fig. 11.



The model basically elaborates three main insights; first, it shows the stakeholders response to CSR initiatives, second the nature of the stakeholder-company relationship and third the importance of distinguishing between CSR spending and the perception of stakeholders towards the company's spending on CSR.

Overall the model explains how various stakeholders of an organisation will perceive CSR initiatives. Shareholders of an organisation as stakeholder's play a pivotal role in deciding the CSR initiatives of a company; "A shareholder is any person, company or other institution that owns shares of a company, often called-stock. Shareholders are a company's owners" (Investopedia, 2015).

18.9.3 CSR and Market Performance

It is of paramount important that all organisations perform well in their given market in order to gain investor confidence and achieve growth for the organisations.

Clarkson, (1995) says that customers are the key stakeholders of the company and are critical for organisational development, hence CSR initiatives should focus on customers. Many academics have focused CSR initiatives on market performance by taking the customer as the centrality of the process. In this context, CREYER & ROSS, (1997) states that even during the 1990s consumers were interested in a company's methods of conducting ethical business in respect of their CSR initiatives. McKinsey's survey in which 89% of the consumers expressed the view that an organisations must balance their obligations to shareholders with that of society for the common good (Ramasamy & Yeung, 2009). Therefore, it is evident that today in order to make customers satisfied an organisations should engage and contribute to the betterment of society. This is further endorsed by the research completed and published by ASOCIO (2004), in which it was stated that CSR programs can influence the mind of the customer by up to 70% in his/her purchase decisions.

Academics have also carried out many studies into what organisations should do in regards to their CSR initiatives when the economic conditions or organisation situation is poor. The findings show an interesting result; it is important for an organisations to continue its CSR activities, even during bad times (Iacono, 2009).

Amongst the many benefits of having ethical products is the fact that customers are always willing to pay a premium price for the company's offerings. Research completed by Pelsmacker, Janssens, Sterckx, & Mielants, (2006) proves this point, as they identified that "consumers were willing to pay an average price premium of 10% for a brand they think engages in fair trade and acts in a socially responsible manner". Certain other researchers have also found that customers are willing to pay a premium price only up to a certain threshold and anything above this would fail to increase the positive image of the organisation even it were 100% ethical (Trudel & Cotte, 2008).

Addressing the relationship between CSR and brand loyalty, Bhattacharya & Sen, (2004) and Bhattacharya, Korschun, & Sen, (2009) show that CSR helps to develop long-term brand loyalty and advocacy behaviours in customers. The detailed literature review of engaging in CSR, shows that it facilitates positive word of mouth endorsements Hoeffler & Keller, (2002), positive thinking towards the company (Brown & Dacin, 1997), influences customers to pay a premium price for products/services (Laroche, Bergeron, & Barbaro-Forleo, 2001), the ability of the organisation to be resilient to negative information about the company (John Peloza, 2006) and creates higher purchase intentions (Mohr & Webb, 2005).

Impact of CSR, Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) Researchers have conducted a large number of studies in order to gain understanding as to whether or not there is a relationship between CSR and financial performance. Burke & Logsdon, (1996) suggests that CSR leads to better financial gains for an organisation. As discussed previously, companies can charge a premium price for its ethical practices, which will eventually lead to the generation of greater profits. Burke & Logsdon, (1996) also suggest that CSR will also lead to generating higher sales.

Further, some of the environmental driven practices such as green production techniques, waste management systems and green energy consumption may help to reduce cost and improve efficiencies in the long term (Holliday, Schmidheiny, & Watts, 2002).

Chen, (2011) discovered that between 1971-2001, it is estimated that there were over 120 empirical studies, which show a positive relationship between CSR and financial performance. Although the above findings prove a positive relationship between CSR and CFP, there is a continuous debate about the linkage between the two. This is mainly because of theoretical and empirical studies supporting a number of positions that are often contradictory (Aupperle, Carroll, & Hatfield, 1985; M. Barnett & Salomon, 2006; Cochran & Wood, 1984; P. C. Godfrey, 2005; A. J. Hillman, Keim, & Luce, 2001; RUSSO & FOUTS, 1997; Waddock & Graves, 1997). To justify and summarise the contradictory views on this by previous studies and to understand the link between CSP and CFP, (Orlitzky et al., 2003) conducted a meta-analysis study; they discovered that "52 studies led to the conclusion that CSP has a positive relationship with CFP across all industries and within all corporate contexts" (Margolis & Walsh, 2003). To support this result and also to justify further confusions, Peloza (2009) summarises 159 previous studies concerning CSP and CFP relationship. In Peloza's, (2009) review, he proposes a figure of "stages of financial impact from corporate social performance, in order to elaborate the manner in which CSP influences CFP". The study completed by Barnett & Salomon, (2006) shows "that at the early stage, financial returns initially declined, but there is a rebound when the firm improves its level of social screening". Another study completed by Brammer & Millington, (2008) suggest that "curvilinear, that companies with unusually high or low CSP may have a higher CFP, but companies with unusually low CSP only promise shortterm financial returns, whilst companies with unusually high CSP promote more long-term financial returns".

17.5 Summary

Borza (2011) argued that in order to establish a functional link between corporate social responsibility concept and practical implementation mechanisms at the company level, we consider that the specialist's opinions that have "tested" this mechanism are highly relevant. To define the context in which the corporate social responsibility operates and manifests, it is necessary to mention that business environment overlaps, almost completely, with the reference area of CSR. Thus, previous research has focused mainly on the effects of CSR on corporate financial performance. CSR has a positive effect on stock prices, and corporations with excellent CSR activities are more likely to show better financial performance in terms of their Return on Equity (ROE), Earning per Share (EPS), profit margin, and net margin, among others. This positive relationship between CSR and financial performance can improve the relationship between the corporation and its investors, and it can also have a direct effect on investors' investment decision. Previous research examining the role of CSR in marketing has focused mainly on customers. Corporate capacity and CSR, two main determinants of corporate relationships, can generate positive attitudes toward the corporation and its products as well as increase purchase intention. Customers have a tendency to buy goods made by corporations engaging in CSR activities if they cannot derive any benefit from competitive brands. The halo effect resulting from the CSR association can have a positive effect on the evaluation of the corporations and its brands, and CSR activities can limit brand devaluation in a brand crisis. Another effect of CSR can be found in the relationship between corporations and their employees. According to early research, employees are more likely to have confidence in corporations with excellent CSR activities resulting in higher organizational commitment, job satisfaction, and increased HRM capacity. Employees' job satisfaction, commitment, turnover rate, and job performance can different depending on what they perceive from actions

17.6 Key Words

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

17.7 Self Assessment Questions

1. What is the definition of the corporate social responsibility ?
2. What about Models of corporate social responsibility ?
3. To Discuss the brief of corporate social responsibility

17.8 References

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Lesson-19

ADVANTAGE OF CORPORATE SOCIAL RESPONSIBILITY

Objective

1.Introduction to the social responsibility
2.To explain the Areas of Corporate Social Responsibility
3. To define the Theoretical Underpinning
4. To explain the Advantage of Corporate Social Responsibility

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19.1 Introduction and Conceptual Clarification

Corporate social responsibility is a business philosophy gaining popularity in the 21st century. Corporate social responsibility policy is aimed at building self regulating mechanism that enables the business to monitor and ensure efficient compliance with the spirit of law, international norms and ethical standards. Corporate social responsibility is the managerial obligation to take action that protects and improves both the welfare of society as a whole and the interests of the organisation. Supervisors are responsible for meeting goals not only within their organisations, but also those for the benefits of society. Many areas exist in which a supervisor can strive to meet an organisational goal and benefit society at the same time. One of such areas would be a supervisor working to meet the organisational goal of producing high-quality products. Producing high-quality products not only helps to increase the marketability of company products, but simultaneously benefits society by providing reliable products. Another example would be a construction supervisor who is attempting to meet the organisational goal of building new houses for the poor under a contract with the city. The supervisor not only is helping to meet company obligations under the contract, but is simultaneously transforming the organisation's community into a more socially satisfying place.

CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. The foregoing implies that corporate social responsibility is about the integration of social, environmental and economic considerations into the decision-making structures and processes of business. It is about using innovation to find creative and value-added solutions to societal and environmental challenges. It is about engaging shareholders and other stakeholders and collaborating with them to more effectively manage potential risks and build credibility and trust in society. Nolan, Norton and Co (2009), cited in Ali, Rehman, Yilmaz, Nazir and Ali (2010) note that corporate social responsibility is an approach whereby a company considers the interests of all stakeholders, both within the organisation and in society and applies those interests while developing its strategy and during execution. Corporate social responsibility offers organisations various opportunities not only to differentiate themselves from competitors, but also, for reducing costs.

Corporate social responsibility is one of the management strategies where companies try to create a positive impact on society, while doing business (Asemah, Edegoh and Anatsui, 2013). Organisations need to cater for the environment where they carry out their operations so as to earn the goodwill of their stakeholders and this in turn enhances the performance of the organisation financially and other areas. Thus, Robins (2008) avers that the main idea of CSR is that companies should accept that they play in society more than just an economic role. It means an interest to take liability not only for activities and impact in business, but also responsibility for their impact on society and environment. This commitment as noted by Robins (2008) is thereafter perceived as a significant competitive advantage mostly in high developed countries. Sources of the advantage lay on a wide range of socially responsible activities, which can be targeted on three areas, in terms of CSR.

Corporate social responsibility (CSR) can be seen as the "economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time" (Carroll and Buchholtz 2003, p. 36, cited in Asemah, Okpanachi and Olumuji, 2013a). The concept of corporate social responsibility means that organisations have moral, ethical and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. Carroll and Buchholtz's four-part definition of CSR makes clear the multi-faceted nature of social responsibility (Asemah, Okpanachi and Olumuji, 2013b). The economic responsibilities cited in the definition refer to society's expectation that organisations will produce goods and services that are needed and desired by customers and sell those goods and services at a reasonable price (Asemah, et al, 2013b). Organisations are expected to be efficient, profitable and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organisations will comply with the laws set down by society to govern competition in the marketplace (Asemah, et al, 2013a). Organisations have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws and employment laws. The ethical responsibilities concern societal expectations that go beyond the law, such as the expectation that organisations will conduct their affairs in a fair and just way. This means that organisations are expected to do more than just comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law. Finally, the discretionary responsibilities of corporations refer to society's expectation that organisations be good citizens. This may involve such things as philanthropic support of programmes benefiting a community or the nation. It may also involve donating employee expertise and time to worthy causes (Asemah, et al, 2013b).

Corporate social responsibility which is considered an important aspect of business today, started as a significant aspect of competitiveness became relevant, particularly during the period of economic recession, when business environment was degrading. There was pressure for lowering already agreed prices and delay of payments, which deteriorated business and affected the collection of receivables. In determination of financial and non-financial impacts of the crisis, the economy began to show unhealthy phenomena such as the significant loss of trust. According to a survey conducted by the Factum Invenio in 2009 for Czech Donors Forum, two thirds of Czech citizens believed that the economic crisis affects, among other areas, the socially responsible behaviour of corporations (Petrová and Rejžková, 2009, cited in Klara, n.d). Corporations around the world are struggling with a new role, which is to meet the needs of the present generation without compromising the ability of the next generations to meet their own needs. Organisations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to apply sustainability principles to the ways in which they conduct their business. Sustainability refers to an organisation's activities, typically considered voluntary, that demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (Van Marrewijk and Verre, 2003, cited in Alessia, Henderson and Sue, 2009).

It is no longer acceptable for a corporation to experience economic prosperity in isolation from those agents impacted by its actions. A firm must now focus its attention on both increasing its bottom line and being a good corporate citizen. Keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organisations to reshape their frameworks, rules and business models. To understand and enhance current efforts, the most socially responsible organisations continue to revise their short- and long-term agendas, to stay ahead of rapidly changing challenges. Corporate responsibility is therefore a prominent feature of the business and society literature, addressing topics of business ethics, corporate social performance, global corporate citizenship, and stakeholder management.

19.2 Areas of Corporate Social Responsibility

There are several types of corporate social responsibility programmes; they are:

19.2.1. Employee Health and Wellness: *Organisations have to be socially responsible to their employees.*

The employees are an organisation's greatest assets. Since the longevity of employees is influenced by the lifestyle choices that they make, organisations need to offers tools and incentives that encourage employees to adopt or maintain healthy lifestyles. There is also the need to offer a variety of benefits aimed at protecting employees' physical and emotional health (Asemah, e t al, 2013b).

19.2.2.Environmental Integrity: Corporate social responsibility also covers commitment to protecting and even improving the environment for the benefit of current and future generations. Environmental protection and preservation makes sound business sense. It not only enriches the lives of our employees, our clients and their loved ones, it can also reduce our expenses and improve our bottom line. Through actions such as, but not limited to, using energy-efficient properties, reducing our reliance on paper and investing in alternative energy and clean air technology. Environmental responsibility covers precautionary approaches to prevent or minimise adverse impacts support for initiatives, promoting greater environmental responsibility, developing and diffusing environmentally friendly technologies and similar areas (Asemah, e t al, 2013b).

19.2.3. Ethical Responsibilities: Ethical responsibilities are responsibilities that a company puts on itself because its owners believe it is the right thing to do; not because they have an obligation to do so. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries, for example (Smith, n.d). Ethical CSR entails incorporating responsible practices that minimise the societal harms of business operations (Lantos, 2001), cited in Asemah, e t al, 2013b). There are many ways for organisations to implement ethical business practices; these include minimising environmental pollution from manufacturing facilities and providing healthcare benefits to employees.

19.2.4. Legal Responsibilities: A company's legal responsibilities are the requirements that are placed on it by the law. Next to ensuring that organisation is profitable, ensuring that it obeys all laws is the most important responsibility, according to the theory of corporate social responsibility. Legal responsibilities can range from securities regulations to labour law, environmental law and even criminal law (Smith, n.d, cited in Asemah, e t al, 2013b).

19.2.5.Philanthropic Responsibilities: Philanthropic responsibilities are responsibilities that go above and beyond what is simply required or what the company believes is right. They involve making an effort to benefit society; for example, by donating services to host communities, engaging in projects to aid the environment or donating money to charitable causes (Smith, n.d). Philanthropic corporate social responsibility involves giving funds, goods or services, sometimes serving as advertising. For example, the local branch of a bank might donate money to fund uniforms for a school sports team or a health care company might donate to the city opera. Philanthropic CSR describes a company's support for a cause or activity that occurs outside of their business operations, but provides benefit to society (Kerlin and Gagnaire, 2009, cited in Asemah, e t al, 2013b).

Companies will usually choose a cause or organisation on which to focus their contributions, which can include donation of equipment or technology, employee time (volunteerism), or money (Kerlin and Gagnaire, 2009). Under the umbrella of philanthropic CSR, there are distinguishing elements that drive motivation for a company's involvement and actions; these differences are represented by altruistic (intrinsic) and strategic (extrinsic) motivations (Lantos, 2001; Matten and Moon, 2008; Du, Bhattacharya and Sen, 2010). Altruistic motives are woven into the corporation's character as part of its intrinsic institutional values and environment (Matten and Moon, 2008). An example of intrinsic motives that is frequently cited in the literature is Ben and Jerry's Homemade Ice Cream, which donates a portion of its profits to causes that the founders believe in, like education and gay rights (Lantos, 2001; Hopkins, 2007; Kerlin and Gagnaire, 2009; Du, Bhattacharya and Sen, 2010). Strategic motives, however, are considered more of a business investment, where company contributions are expected to yield a profitable return (Lantos, 2001). Whatever the motives, it is certain that CSR has become an important tool for measuring a company's reputation and public image (Ellen, Webb, and Mohr, 2006).

19.2.6.Economic Responsibilities: An organisation's first responsibility is its economic responsibility; that is to say, an organisation needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it will not last, employees will lose jobs and the company will not even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable (Smith, n.d). This implies that economic responsibility covers areas like integrity, corporate governance, economic development of the community, transparency, prevention of bribery and corruption, payments to national and local authorities, use of local suppliers, hiring local labour and similar areas (Asemah, e t al, 2013b).

19.3.Theoretical Underpinning

The paper is anchored on two theories; namely stakeholder's theory and iron law of social responsibility theory.

Stakeholder's theory is a theory of organisational management and business ethics that addresses morals and values in managing an organisation. The stakeholder theory of CSR is based on the assumption that organisations, whether private or public, have obligations to several groups that make up the society. These constituents are referred to as stakeholders- individuals and groups that are critical to the existence of the organisation; they influence what the organisation does or they are being influenced by organisational actions (Asemah, e t al, 2013a). As an integral part of the normative CSR theories, the stakeholder theory stipulates that management has a moral duty to protect not only the corporation, but also the legitimate interest of all stakeholders. Thus, all stakeholders' interests must be maximised at all times. In this way, when an organisation invests in the society, it is expected to reap this in form of improved reputation and understanding when things go wrong; and to equally maximise even the profit motive of the owners in the process (Asemah, e t al, 2013b). The theory is relevant to the study because it explains the constituent groups that an organisation should be responsible to; thus, organisations that are socially responsible to the constituent groups will win their goodwill and this will in turn impact on the operations of the organisation positively.

The iron law of responsibility says that in the long run, those organisations that do not use power in ways that society considers responsible will tend to lose it. Organisations are tied to the environment based on the iron law of responsibility. Thus, organisations must be socially responsible to the communities where they operate. This theory is also relevant to the study because it lays emphasis on organisations being socially responsible in their operations so that they will be able to win the goodwill of stakeholders.

19.4 Previous Studies on CSR Advantages

Corporate social responsibility offers organisations various opportunities not only to differentiate themselves from competitors, but also, for reducing costs (Nolan, Norton and Co 2009, cited in Ali, et al, 2010). This perhaps explains why Klara (n.d) avers that:

In the commercial sector, CSR is considered a part of strategic planning for those companies that strive to be successful, that want to improve their reputation and especially those who want to be competitive. CSR is a competitive advantage for businesses, having as a source the intangible and human resources, and being executed by competences such as communication, management and corporate culture.

The foregoing implies that organisations that carry out corporate social responsibility programmes have certain advantages to benefit from such performances; thus, it is imperative for organisations to always involve itself in one form of corporate social responsibility or the other, especially with the main purpose of winning the goodwill of the stakeholders. Nurn and Tang (2010) in their research titled "obtaining intangible and tangible benefits from corporate social responsibility" found out that corporate social responsibility leads to greater corporate financial performance; the authors further explained that CSR leads to the tangible benefits of attracting better employees, reduced turnover rate, greater efficiency and reduced operating costs. Organisations stand to have two kinds of benefits from practising corporate social responsibility; these include internal and external benefits. Likewise, CSR benefits can also be classified into tangible and intangible categories. Tangible benefits are those that are easily quantifiable in financial and physical terms whereas intangible benefits are harder to quantify and are non-physical in nature (Nurn and Tang (2010). External benefits that have been empirically tested include corporate reputation and reducing business risk. Other external benefits that have been explored conceptually include boosting sales revenue, customer goodwill and increasing rivals costs (Nurn and Tang 2010).

Thus, the external benefits of corporate social responsibility that have been empirically tested as noted by Nurm and Tang (2010) are: corporate reputation (Logsdon and Wood, 2002; Orlitzky, Schmidt and Rynes, 2003) and reducing business risk (Orlitzky and Benjamin, 2001); boosting sales revenue (Auger et al., 2003), customer goodwill (Solomon and Hansen, 1985) and increasing rivals' costs (McWilliams, Van Fleet and Kenneth, 2002.; Heyes, 2005). Nurm and Tang (2010) also averred that a few internal benefits have been studied empirically, like learning (Logsdon and Wood, 2002; Orlitzky et al., 2003), attracting better employees (Backhaus, Stone and Heiner, 2002; Greening and Turban, 2000; Turban and Cable, 2003; Turban and Greening, 1996) and workplace attitude (Fulmer, Gerhart and Scott, 2003; Ballou, Godwin and Shortridge, 2003). Other internal benefits include that of employee motivation (Branco and Rodrigues, 2006; Orlitzky, 2008), employee morale (Branco and Rodrigues, 2006; Maxfield, 2008); commitment (Branco and Rodrigues, 2006; Orlitzky, 2008; Frank, 1996), trust (Chahal and Sharma, 2006), employee loyalty/retention (Branco and Rodrigues, 2006; Srinivas, 2002), and organisational citizenship behaviors (Davis, 1973; Hodson, 2001; McGuire, Sundgren and Schneeweis, 1988). This implies therefore that corporate social responsibility is advantageous to every business organisation; and these advantages cover the ones the organisation can see and the ones that cannot be seen. Similarly, a study conducted by Dodd and Supa (2011) to find out the relationship between corporate social responsibility performance and consumer's purchase decision shows that there is a relationship between consumers' purchase intentions and organisations' involvement in socially responsible programmes. Fonceca and Jebaseelan (2012, p. 47) avers that:

Nurturing a strong corporate culture which emphasises corporate social responsibility (CSR) values and competencies is required to achieve the synergistic benefits. CSR as a powerful tool enhances the brand image and reputation of the business which leads to improvement in sales and customer loyalty. By adopting the right programmes, it increases the ability to attract and retain employees. Used as a right tool, it offers manifold benefits, both internally and externally. Internally, it cultivates a sense of loyalty and trust amongst the employees. It improves operational efficiency and is often accompanied by increase in quality and productivity. It serves as a soothing diversion from the routine workplace practices and gives a feeling of satisfaction and a meaning to the lives of the employees. Externally, it aims at establishing positive public relations and earns a special respect amongst its peers. It also provides short term employment opportunities by taking various projects like construction of parks, schools, welfare facilities, etc.

Organisations, generally engage in corporate social responsibility activities to influence and improve stakeholders' perception of their image. Organisation or brand image is important because it ultimately provides the company a competitive advantage for their business (Barone, Norman and Miyazaki, 2007, p. 444). Corporate social responsibility is being monitored more closely now than ever before because consumers are very concerned with responsible business practices (Morsing and Schultz, 2006). Stakeholder groups can have tremendous influence on profitability; so, it is in the best interest of the company's bottom line to meet the expectations of these groups. This explains why Okedare (2007) avers that corporate social responsibility provides the basis for organisations to consider the interests of society by taking responsibility for the impact of the organisation's activities on customers, employees, shareholders, communities and the environment in all aspects of its operations. Corporate social responsibility, as noted by Ogbemi and Akpoveta (2012, p. 89) " is all that public relations is, because having been involved in the community where a company is operating is a natural part of a successful business practice"

Cone (2010) avers that when an industry is viewed as good corporate citizens, it can foster long-term, loyal relationships with consumers, who see themselves as investors in the company or brand with their purchasing power (Du et al., 2010). Consumers may also be willing to pay a premium price for products offered by a company engaged in corporate social responsibility (Austin, Leonard, Reficco and Wei-Skillern, 2006; Du et al., 2010). Corporate social responsibility programmes can also help to establish a positive corporate reputation that makes consumers resilient to negative company news (Du, et al., 2010). Consumers can become promotional mechanisms for a company or brand through positive word-of-mouth communication. The internet has offered a magnified platform for this, as consumers are using social networking sites to communicate their enthusiasm for a company or brand because of its socially responsible practices or projects (Du, et al., 2010). However, this powerful voice can have an adverse effect for a company that is not meeting consumer expectations (Austin, eta l, 2006).

Consumers have been known to "punish" companies they believe are behaving socially irresponsibly through product boycotts and encouraging others to do the same (Austin et al., 2006). Companies can also realise benefits of socially responsible business practices internally, among its employees. When employees are aware of the responsible practices and philanthropic activities of their employer, it can generate feelings of pride in the company and lead to increased employee dedication to the company employees (Austin, et al., 2006). Corporate social responsibility can also lead to employees' increased willingness to offer more time and energy to their companies (Maignan and Ferrell, 2004). When employees feel this sense of pride for their company, this follows them outside of the office and they can become a promotional asset to the company, serving as ambassadors for the brand. Shareholders are mainly concerned with the company's financial bottom line. Their interest in corporate social responsibility relates to how it can differentiate the company in the market to increase company profits. A company's corporate social responsibility activities can improve its reputation because it establishes a social value of the company, which can be a distinguishable quality that helps set it apart from competitors (Austin et al., 2006). Thus, shareholders benefit from corporate social responsibility programmes because of their influence on consumer purchasing behaviour and potential to increase employee productivity.

Corporate social responsibility is an application of several classical economics theories. The stakeholder theory states that effective management of stakeholder relationships, the fundamental blocks of corporate social responsibility, may also result in better financial performance (Ioannou and Serafeim, 2010). A number of studies within the resource-based view of the companies argue for the mechanisms through which socially responsible behaviour may lead to competitive advantage (deBakker and Nijhof, 2002; Hockerts, 2003; Branco and Rodrigues, 2006). Corporate social responsibility may function in similar ways as advertising does, by increasing overall demand for products and services and/or by reducing consumer price sensitivity (Sen and Bhattacharya, 2004). Corporate social responsibility branding can draw consumers away from competitors and thereby improving profitability. Corporate social responsibility can also attract socially conscious consumers (Hillman and Keim, 2001). In addition, corporate social responsibility strategies may also lead to better company's performance by protecting and enhancing company reputation (Fombrun, 2005; Freeman, Harrison and Wicks, 2007). Tuppen (2004) says that corporate social responsibility related issues are important drivers of corporate image and reputation, which are major determinants of consumer satisfaction.

Satisfied consumer tends to have intensive purchase behavior and also continue in future in shape of consumer retention (Ali et al., 2010). This is the important key for gaining sustainable sales revenues and business profits. Uadiale and Fagbemi (2011) examine the impact of corporate social responsibility activities on financial performance measured with Return on Equity (ROE) and Return on Assets (ROA) in Nigerian companies. The results show that corporate social responsibility has a positive and significant relationship with the financial performance measures. Corporate social responsibility is a driving force in strengthening the process skills of individuals in the community, enabling people to work together toward common goals and objectives (Rausch and Patton 2004). Crowther and Aras (2008) insist that the central tenet of social responsibility is the social contract between all the stakeholders to society, which is an essential requirement of civil society. According to Crowther and Aras (2008, p. 13) "social responsibility is not limited to the present members of the society, but should also be expanded to its future members, as well as environment, since it will have implications for members of society, both now and in the future". Organisations are not operating in vacuum and apparently, their operations will affect their external environment.

Stakeholders provide organisations with a range of resources such as capital, customers, employees, materials and legitimacy (Deegan, 2002). They also provide the "licence to operate" to the organisations in return for the provision of socially acceptable or legitimate, actions. To strengthen this social contract which allows organisation to continue operations, they need to be socially responsible. This can be an underlying reason why we would expect food industries to be involved in corporate social responsibility and reporting it to society. Branco and Rodrigues (2006, p. 112) also discussed briefly how the intangible benefits of CSR result in sustained competitive advantage for firms when they averred that "the contribution that CSR may have to financial performance is nowadays primarily related to qualitative factors, such as employee morale or corporate reputation".

19.5 Understanding the Business Advantages of Corporate Social Responsibility

From the literature, it is evident that organisations that value corporate social responsibility stand the chance of having the following advantages:

19.5.1. Enhanced Brand and Reputation: Tsoutsoura (2004) notes that many benefits can be identified; firstly, socially responsible companies have enhanced brand image and reputation. Consumers are often drawn to brands and companies with good reputations in CSR related issues. A company regarded as socially responsible can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners. Reputation is hard to quantify and measure; it is even harder to measure how much it increases a company's value, but since companies have developed methods to measure the benefits of their advertisement campaigns, similar methods can and should be able to be applied in the case of corporate reputation. Socially responsible companies also have less risk of negative rare events.

Apostles of corporate social responsibility argue that it improves the image of the organisation. When an organisation carries out corporate social activities, it is telling the community members that it is a friend of the community. This improves the impression people have about the corporate existence of the organisation. To offset unfavourable image, many business leaders work hard to convince the public that business creates much good for society (Frederick, 1998, p .37, cited in (Asemah, e t al, 2013).

19.5.2.Reduction in Operation Costs: There are also other cases in which doing what is good and responsible converges with doing the best for the particular business. Some CSR initiatives can dramatically reduce operating costs. For example, reducing packaging material or planning the optimum route for delivery trucks not only reduces the environmental impact of a company's operation, but it also reduces the cost. The process of adopting the CSR principles motivates executives to reconsider their business practices and to seek more efficient ways of operating.

19.5.3. **Attracting New Customers:** Companies perceived to have a strong CSR commitment often have an increased ability to attract and to retain employees (Turban and Greening 1997, cited in Tsoutsoura, 2004), which leads to reduced turnover, recruitment and training costs. Employees, too, often evaluate their companies' CSR performance to determine if their personal values conflict with those of the businesses at which they work. There are many known cases in which employees were asked, under pressure of their supervisors, to overlook written or moral laws in order to achieve higher profits. These practices create a culture of fear in the workplace and harm the employees' trust, loyalty and commitment to the company.

19.5.4.**It balances Power with Responsibility:** Organisations have power and this power should be accompanied with certain social responsibility. Those who have power should use it judiciously. As noted by Fredrick (1998), modern business corporation possesses power and influence and this should be accompanied with responsibility. The foregoing therefore implies that organisations have power; they have great influence and they need to balance it with responsibility. When they do this, they win the goodwill of the community members, but when they fail to do this, they attract the wrath of the community members. Thus, Frederick (1998) avers that the relationship between power and responsibility has produced what has come to be known as ''iron law of responsibility''. The iron law of responsibility as noted by Frederick (1998, p.36) says that in the long run, those who do not use power in ways that society considers responsible will tend to lose it.

19.5.5. **It Discourages Government Regulation**: When the government is fully aware that an organisation or all organisations are alive to their responsibilities (social responsibilities), government becomes discouraged to regulate business. Government regulations may affect the business negatively, but when organisations know that they have a social responsibility to the community where they operate, there may be no need for regulation. Frederick (1998, p. 39), cited in Asemah, et al (2013) avers that business by its own socially possible behaviour can discourage new government restrictions; it is accomplishing a public good, as well as, its own private good.

19.5.6. **It Promotes Long Run Profit**. When an organisation carries out corporate social activities, it makes more profit. Rao (2012), cited (Asemah, et al (2013) avers that socially responsible businesses tend to have more and secure long run profits. This is the normal result of the better community relations and improved business image that responsible. Asada (2012), cited in Asemah, et al (2013) avers that proponents of social responsibility as social obligation posit that a company engages in socially responsible behaviour when it thinks of profits only within the constraints of law. They believe that because the society supports business by ensuring its continuous existence, the only way business can repay society is to continue to ensure that it is making profits. Thus, Freedman (1990), cited in Asada (2008) avers that there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception or fraud.

19.5.7.Recognises Business Moral Obligations: Organisations owe it a duty to provide amenities to environments where they operate. Thus, those who argue in favour of corporate social responsibility note that it is the organisation's moral obligation to help society. Frederick (1998, p .38), cited in Asemah, et al (2013) notes that this viewpoint considers a society's moral and ethical rules to have higher priority for corporate managers than other considerations, including business profits and other economic goals.

19.5.8.Improved Relations with the Investment Community and Better Access to Capital: The investment community has been exploring the links between corporate social responsibility and financial performance of businesses. There is growing evidence that companies that embrace the essential qualities of CSR generally outperform their counterparts that do not use features of CSR. This information is being translated into action within the investment community. An increasing number of mutual funds are now integrating CSR criteria into their selection processes to screen in sounder companies and/or screen out businesses that do not meet certain environmental or social standards. Thus, a CSR approach by a company can improve the stature of the company in the perspective of the investment community, a company's stock market valuation and its capacity to access capital from that community.

19.5.9. Enhanced Employee Relations, Productivity and Innovation: A key potential benefit from CSR initiatives involves establishing the conditions that can contribute to increasing the commitment and motivation of employees to become more innovative and productive. Companies that employ CSR related perspectives and tools tend to be businesses that provide the pre-conditions for increased loyalty and commitment from employees. These conditions can serve to help to recruit employees, retain employees, motivate employees to develop skills and encourage employees to pursue learning to find innovative ways to not only reduce costs, but to also spot and take advantage of new opportunities for maximising benefits, reduce absenteeism and may also translate into marginally less demands for higher wages.

19.5.10.Stronger Relations within Communities through Stakeholder Engagement: A key feature of CSR involves the way that a company engages, involves and collaborates with its stakeholders, including shareholders, employees, debtholders, suppliers, customers, communities, non-governmental organisations and governments. To the extent that stakeholder engagement and collaboration involve maintaining an open dialogue, being prepared to form effective partnerships and demonstrating transparency, through measuring, accounting and reporting practices, the relationship between the business and the community in which it operates is likely to be more credible and trustworthy. This is a potentially important benefit for companies because it increases their "licence to operate", enhances their prospects to be supported over the longer term by the community and improves their capacity to be more sustainable. Companies can use stakeholder engagement to internalise society's needs, hopes, circumstances into their corporate views and decision-making. While there are many questions about how far a company's responsibilities extend into communities relative to the roles of governments and individual citizens, there is a strong argument that CSR can effectively improve a company's relations with communities and thereby produce some key features that will improve business prospects for its future

19.6 Summary and Conclusion

Organisations that that recognise the fact that they ought to be socially responsible to their stakeholders and go a step further to practising CSR have a lot of benefits; businesses that are only profit driven display no sense of responsibility for the proper development of society, and hence lose out on their brand recall, customers and well wishers. No employee or shareholder would like to be associated with a business that does not show legal, legitimate and decent ways of making money. That is where CSR or corporate social responsibility comes in. Companies with an active CSR also play a major role in the development of the land by donating to charities and uplifting the lesser fortunate populace. Socially responsible organisations make profit in a way that does not harm the social and environmental fabric of the country where they operate. Human beings are also first on their list of concerns. Generally, socially responsible companies have very high employee satisfaction and motivation levels; CSR lowers the cost to companies in the long run. Organisations that exhibit CSR have a better reputation, which means that there is a positive image of the company in the public's eyes that converts into customer loyalty. More so, companies that have CSR will attract more and more investors, thereby increasing the business access to capital. The paper therefore concludes that organisations that carry out corporate social responsibility activities have a lot to benefit. Thus, the paper recommends that organisations should endeavour to pay due attention to corporate social responsibility and this practice should be a continuous one.

19.7 Key Words

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

19.8 Self Assessment Questions

1. What is the definition of the corporate social responsibility ?
2. What about Advantage of corporate social responsibility ?
3. To Discuss the brief of corporate social responsibility

19.9 References

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Lesson-20

UNDERSTANDING CSR OF BUSINESS PROTECTING AND PROMOTING STAKE HOLDERS

Objective

The following Research objectives are formulated to be studied in context to IT/ITe S Industry of Bangalore City.

To study employees` perceptions on existing CSR Policy enacted by Government of India

To examine employee perceptions on Internal CSR Communication

To examine employee perceptions on CSR Awareness

To study employee perceptions on CSR incentives

To study employee perceptions on integration

To study employee perceptions on CSR measures

To study employee perceptions on Operational Efficiency

Structure

20.1 The Concept of Corporate Social Responsibility

The definition has been highly applicable to corporations, governments and other players as a result of a vigorous debate among a variety of academics regarding its significance (Carroll, 2004; Dahlsroud, 2008; Robins, 2005). (Triple Bottom Line) It's still a good term for the growth of social responsibility. The increasing concern is largely due to initiatives by foreign agencies, policymakers and civil society organizations. It has led to fair working conditions and increased use of resources and realistic steps to counter corruption (UNGC, 2012).

Some CSR initiatives have been taken by a number of transnational companies (TNCs) in order Promoting and enhancing the working environments of fair and competitive market praxis in Asia and the Pacific (ESCAP, 2009). But since the idea of CSR has grown predominantly in West, in particular in the USA, policy-makers and business leaders in the region have received little interest in the historical development of CSR.

The foundations of today's CSR definition have lengthy backgrounds that indicate that individuals from industry pay more attention to society's needs (Carroll, 2004). (Carroll, 2004). The expansion of the definition not only leads to a deeper perception of the nature of CSR and the interaction between firms and their core actors, but also to an increased view of the company position in growth and its commitment to society.

The concept of CSR can be elaborated on origin and development of the concept of

CSR in each of the following six phases.

20.1.1 Corporate Social Responsibility: 1950s
20.1.2 Corporate Social Responsibility as Philanthropy in 1960s
20.1.3 Period of Rapid Growth in the Concept of CSR During 1970s
20.1.4 Stakeholder Theory and Business Ethics as CSR in 1980s
20.1.5 CSR in Business Practice During 1990s
20.1.6 Research on CSR in 21st Century

These six phases can reflect on origin and development of Corporate Social Responsivity as a nut shell.

20.1.1 Corporate Social Responsibility: 1950s

For the first time, Howard Bowen incorporated the idea of social accountability in scientific science in his groundbreaking thesis in 1953 called "Personal Responsibilities of the Businessman. In fact, Bowen enquired “What responsibilities to society may businessmen reasonably be expected to assume?” and provided the initial definition of the social responsibility as “… it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”. The study of Bowen (1953) was motivated by the belief that the few hundred biggest corporations were at that period crucial for control and decision-making, and that such companies' decisions had a significant effect on the lives of people as demonstrated by Carroll (2006). From there on Frederick (1960) made another significant introduction to the early conceptions of social obligation. Frederick (1960) claims it “social responsibility [in the final analysis] implies a public posture toward society’s economic and human resources and a willingness to see that those resources are utilized for broad social ends and not simply for the narrowly circumscribed interests of private persons and firm”. Frederick (1950) discusses three main theories on corporate philanthropy and trust: 1. As municipal officials, 2. Business executives. Competitive business capital statements match two, three. The recognition of philanthropy as an act of positive works for industry. Murphy (1978) also described CSR development as the "philanthropic" period in the four-day period during which corporations contributed mainly to charities.

20.1.2 Corporate Social Responsibility as Philanthropy in 1960s

Throughout the 1960s, the concept of Corporate Social Responsibility became a time of substantial change. Philanthropy, though, persisted in the sixties to remain the most compelling form of CSR. Davis (1960) defined corporate social responsibility as "decisions and actions of business people taken for reasons that are at least partially beyond the direct economic or technical interest of the company." In fact, Walton (1967) addressed different facets of CSR and suggested a modern philosophy of corporate responsibility that considers the relationship between community and businesses. The author further emphasized that all the actors would understand these experiences and at the same time meeting their respective objectives. Friedman (1962) has established the CSR as a company's social duty to leverage its capital and to partake in programs to maximize its profitability as long as it is subject to the laws of the market , in particular to fair and equal competition and without any disappointments and fraud. After a number of multinational companies had been a stakeholder, that means the people on whom an organization 's actions have an effect, the word "corporate social responsibility" was used in the late 1960s and early 1970s. It was used to identify founders of businesses rather than shareholders (Freeman 1984)

20.1.3 Period of Rapid Growth in the Concept of CSR During 1970s

In the 1970s, modern ideas like corporate social sensitivity (Ackerman 1973; Ackerman and Bauer 1976), corporate social success (CSP) and social responsibility sees a major increase in the philosophy of CSR. Friedman (1970) claimed at the beginning of the 1970's that corporate social obligation is to maximize their earnings according to the capitalism-style approach to maximization of shareholder interest. The author expands the case of capitalism to take social accountability into account “there is one and only one social responsibility of business to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” The psychological and analytical authors appeared to deliver complex CSR principles. Johnson (1971), for example , defines CSR as traditional wisdom where “a socially responsible firm is one whose managerial staffs balance a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation.” Further on, Sethi (1975), by describing 'full social success levels,' 'financial duty,' 'social accountability' and 'private reaction,' distinguishes between corporate and financial behaviour. The principle of social obligation was conceptually separated by Hay and Gray (1974) into three historical phases: "Phase I: optimizing profit; phase II: trust; and phase II, the standard of life. The principles of Phase III should be more generally recognized by prospective company executives. "The four- part framework for social responsibility, integrated into the organizational philosophy of social performance (CSP) was introduced by Carroll in 1979, as a key contribution to the advancement of the CSR term. The concept of CSR as suggested by Carroll can be described as follows: "social corporate responsibility encompasses fiscal, juridical, ethical and contractual responsibilities of organization at the given level." In this time, the fourth portion of the CSR structure as introduced by Carroll (1979) became widely agreed and thoroughly represents the entire set of obligations. Those four universal criteria more exhaustively categorize corporations' ethical commitments.

Figure-20.1 *Pyramid model of CSR. Source Adapted from Carroll (1991)*

20.1.4 Stakeholder Theory and Business Ethics as CSR in 1980s

The emphasis of CSR on the development of fresh and extended ideas informed academic research in the 1980s. The CSR concentrated on the recasting of values and issues such as moral responsibility, social efficiency of business, public policy, business ethics, the theory and management of stakeholders. To sum up the existing debate on CSR, Jones (1980) argued that agreement about what constitute socially acceptable actions is quite difficult to attain and, as a consequence of this, CSR should not be treated as a mechanism. Earlier on, Muirhead (1999) identified the period of "growth and expansion" of business expenditure from the mid-1950s to the mid-1980s. Tuzzolino and Armandi (1981) introduced an organizational analysis microanalytically paradigm that incorporates a theoretical model for need. They introduced an operational performance measurement taxonomic system that provided a way of measuring social responsibility. We also noticed that the CSR can be easily activated and operationalized in an organizational framework. The stakeholder theory and business ethic, mainly Freeman (1984) and Wartick and Cochran (1985), represented two very important "alternative theories" from CSR developed in the 1980s. Freeman (1984) observed: „ A new philosophical structure is required ... our present ideas are inconsistent as well with the magnitude and form of transition taking place in the 1980s."Freeman and Velamuri (2005). Using a stakeholder approach to CSR, the idea of company is further defined through defining stakeholders. Throughout their attempts to draw from a stakeholder viewpoint, Wartick and Cochran (1985) addressed the topic of social management and noticed that CSR was focused on a four-stakeholder strategy, which required four degrees of engagement to this new CSR method, and proposed ten concepts that should enable managers and business leaders to continue to adopt this approach. Research have also been conducted during this time on the connection between client corporate responsibility and profitability. CSRs linked to social responsibility, empathy and business ethics are defined by Epstein (1987). "Corporate social responsibility primarily involves the achievement of results from the organizational decisions in specific questions or issues (by some normative standards) which benefit rather than have adverse impacts on relevant company stakeholders, the author argues that the three concept of corporate social responsibility address closely related, even overlapping, topics and concerns.

Many scholars responded to the principle o f stakeholders and established new CSR models. Which include: profitability, management philosophy, triple bottom line, CSR2.0 DNA Framework, group accountancy system focused on professionals, CSR value generation model, and consumer obligation path. In order to be able to provide a long-term outlook, Stakeholder theory is further established as a framework for sustainability that the World Economic and Development Commission describes as "growth that meets the existing needs without undermining the capacity of potential generations to fulfill their own requirements." This notion is consistent with the argument of Hawken (1993) that manufacturing affects the climate, but company is still necessary in order to address environmental sustainable development issues. Nearly two decades later, Gechev (2005) noted that short-term and long-term changes are being taken into account. More Maples describes sustainable growth as a blend of innovation and security. The creative challenge is to respond to modern accelerated technologies while maintaining existing socio-economic systems. In the longer term market success, longevity is an significant predictor (Maples, 2005). In the Sustainable Development Theory, the notion of important business-environment relationship was then started to play. This principle then evolved into modern models , i.e. Triple Row, Sustainable Development System, and CSR 2.0 Framework DNA.

20.1.5 CSR in Business Practice During 1990s

In the late 1980s and 1990s the pyramid theory of Carroll (1991) contributed to substantial corporate philanthropy and inspired a range of new frameworks, including the Triple Bottom Line, the CSR Value Building Concept and Consumer Based Corporate Responsibility. The word stewardship was then integrated into Davis, Schoorman and Donaldson (1997), to define the idea of stewardship and to further mold the nature of CSR concepts. Muirhead (1999) described this period of "diversification and globalization." The theory of stewardship views executives as stewards of corporate capital, serving shareholders and associates. In comparison to the idea that maximization of shareholder value is the obligation to separate the Board President and CEO, management theory argues maximization of shareholder profit is achieved by joint president and treasurer (Donaldson and Davis 1991). In the sense of many current CSR systems of the twenty-first century, Stewardship Theory has also led to a concept of "triple bottom line" (TBL) by utilizing stakeholder Theory to calculate and track CSR impacts that reflect financial , social and environmental performance. This is also advocated by the Elkington Customer-Driven Corporate Responsibility Program. Within the world economy there have been more global companies and executive positions dedicated to corporate contributions have been growing in the operational boards of major organizations and corporate social responsibility, as a more systemic measure of progress 3. In the 1990s, commercial operation made the most important difference to CSR. Through community activity and continued accountability for sustainable products, policies and organizational ties, the CSR concept extended.

20.1.6 Research on CSR in 21st Century

21st century is a witness of a change in emphasis from abstract to scientific study on subjects such as stakeholder philosophy, market policy, growth, and corporate citizenship. Husted (2000) introduced CSP's contingency theory, suggesting that CSP is a feature of the existence of the social problem and its related approaches and frameworks. As a consequence, components such as organizational social responsibility, problems management, and stakeholder engagement are incorporated. Griffin (2000) also claimed that current work in similar fields such as communications, public resources, psychology, etc. may further expand our perception of corporate social efficiency. A separate but important line of literature identified CSR as a signaling tool for understanding corporate responsibility to social cases as a communication mechanism within the context of signaling models. In turn, these mechanisms claim that CSR practices might potentially transmit valuable knowledge regarding an organization to an uninformed individual as they are infected with expense and can be implemented as a signal to the the asymmetric intelligence premium (Jones and Murrel 2001; Fisman 2006). Schwartz and Carroll (2003) expanded Carroll's (1979) three-domain approach to CSR by that the four CSR domains as fiscal, legal and ethical. Stormer (2003) proposed going past the company's stakeholder paradigm to an inter-system market model that involves shifting corporate attitudes as autonomous or separate companies to see businesses as members of the systems that produced them (Solomon, 2004). This is also described as a change from the 'egoic' self-perspective to the 'postegoic' non-interdependent perception of the entity (Driver 2006). The twenty-first century even stimulated major organizations to express best practises in CSR. Organization for Economic Co-operation and Development (OECD), for example, issued guidance on corporate social responsibility (OECD 2001).

In a UK-specific report, Moon (2004) discussed how CSR developed as part of the country's social governance that shaped the overall growth of CSR in the EU. Similar to the US, European CSR is strongly linked to stakeholder accountability. Landenberg (2005), for example, states that CSR growth in Europe was defined as motivated by "a long-term re-evaluation of corporate position in society." The development of CSR from 1950s to 2000s is demonstrated in Figure 1.2. The figure also indicates significant scholars whose research on CSR's transition from philanthropic to corporate activities that counter stakeholder approach has been frequently cited. Sustainable development philosophy, with a further advancement of current CSR and TBL principles before the 21st century, may be incorporated. In order to construct a paradigm of sustainable growth that represents the alignment and stewardship of financial, social and environmental resources in order to achieve sustainability, for example Aras et Crowther (2009) placed the stewardship of the philosophy in the threefold section. In addition, the observers reflect on internal and external goals of a organization by addressing four CSR components:

• Economic dimension, because of the company's existence;
• Economic, eradicating injustice and safeguarding civil rights;
• Climate, protecting nature for future generations;
• Organizational ethos, in keeping with business and societal principles

The convergence of stewardship philosophy with TBL has further developed into modern frameworks such as CSR 2.0 System DNA, A proactive social management structure and a corporate governance program that is customer-driven. The DNA definition in CSR 2.0 is an integration in Visser et al. (2010A, b) into the Stakeholder Theory and Sustainable Development model "spiraling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labour responsibility; social sustainability and community responsibility; and environmental sustainability and moral responsibility." CSR 2.0 model DNA incorporates the principles of "C," "S" and "R" compatibility with "2" duality and "0" circularity. Connectivity is about managing multi-stakeholder relationships; Scalability implies that aorganization must carry out large-scale and long- term CSR programs; Responsiveness reflects that a business must be sensitive to fulfil the needs of the community; Duality encompasses the duty of the organization not just to environmental but also to cultural and social dimensions. Eventually, Circularity supports longevity. A Practitioner-based Societal Responsibility Model defines managers' expectations that CSR is perceived in a fairly limited way. Pedersen (2010) explains that a more practitioner-based concept of social responsibility is the TBL priority. It also reflects variations in CSR vision between administrators. For example, some interpret CSR as a reactive way where CSR is conducted primarily to satisfy obligation and prevent harm, whereas others take a constructive approach to perceiving CSR as an attempt to bring greater social progress. Overall, managers see CSR as delivering good-quality goods without damaging the ecosystem thus generating value for company and society. In such an strategy, a company's liabilities for goods, assets and climate are not only seen as its internal activities, but also expected to generate value for customers rather than shareholders. Although Practitioner-based approach draws on Stakeholder Theory, it does not treat all stakeholder priorities as equally relevant, and considers CSR as one of a company's core management practices where managers consider staff and clients to be more relevant than other stakeholders. Furthermore, Gholami (2011) introduces a Stakeholder Theory Value Creation Model that explains the value development for a company and community arising from their shared reliance on the relation between CSR and corporate results, both financial and non-financial output. Gholami (2011) also expands on Carroll's (1991) Pyramid System under which an agency and community will provide cultural, legal, ethical and philanthropic obligations. In addition to the definition, tangible metrics for each pyramid theme are described in the Gholami (2011) Meaning Development Model. Specifically, the Value Generation Model metrics are Private savings cost, spending on the business, inflation rate and lead time for output. The policy aspects suggested by Gholami (2011) cover trade, job ties, taxes and the protection of human rights. Codes of behavior, criminality and money evasion practices. Gholami (2011) also provides the key philanthropic measures donor selection, donor attrition, administration and donation processing period. In a Value Creation Framework the independent variables are viewed as financial, political, social, and philanthropic; economic, infrastructural, centralizing and preparatory organizational considerations are viewed as control variables; and traditional business performance metrics such as returns on investment (ROI), return on equity (ROE), return on assets (ROA), operating income (OI) and non-funds. Ultimately, Claydon (2011) introduced the Customer Protection Theory. Similar to Value Creation System, Carroll's Pyramid Model often affects this concept, since strategic strategy becomes ultimately a company's key feature. The paradigm also amalgamates Sustainable Development Theory’s idea of profitability, suggesting that a business will stay competitive to be sustainable. Seeing customers as core stakeholders, this model suggests that its customers will achieve sustainable productivity by ethical and responsible actions. This concept demonstrates that CSR can be implemented to gain a company's strategic edge when the consumer base is not well developed as well as to sustain a sustainable condition where the customer base is already formed because new consumers would tend to seek CSR from the product. The organization must therefore respond to CSR demand to stay respectable and productive. This model indicates a process where a company's implemented CSR can contribute to an expanded consumer base, implying productivity. CSR 's productivity also contributes to a better credibility, which will improve consumer base. The expanded user base contributes to higher market appetite for CSR, so the organisation adopts CSR.

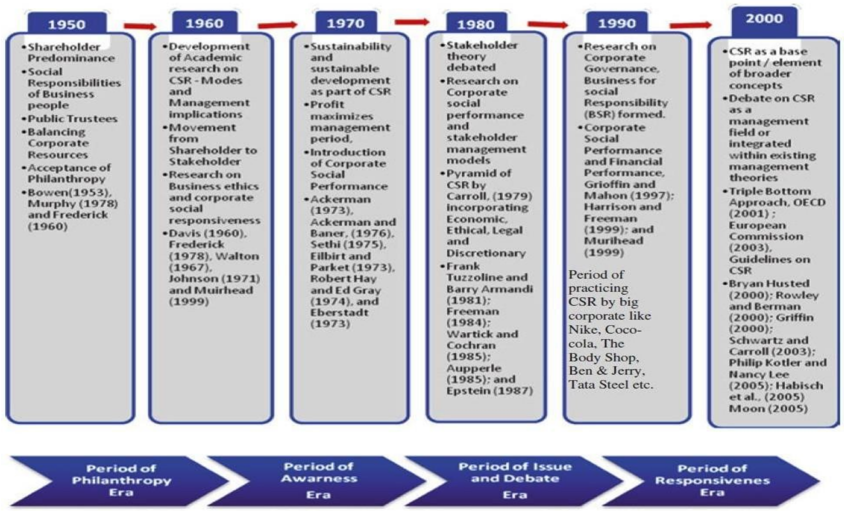

Fig-20.2 CSR development: Timeline. Sources: Authors completion of RoL and others.

20.2 Meaning and Definitions of Corporate Social Responsibility

Corporate Social Responsibility (also named CSR, corporate conscience, and corporate citizenship) is incorporating environmentally responsible policies and activities into the company process and community of aorganization. CSR seeks to increase long-term revenues for online and offline companies by making them more effective and drawing constructive exposure to their activities.

CSR is denoted by a range of other terms such as social responsibility, social integrity, corporate ethics, corporate philanthropy, corporate citizenship or stewardship, responsible enterprise or ethical company and, to name a handful, 'triple bottom line.' When CSR concerns become gradually embedded into conventional market activities, there is a movement towards "ethical competition" or "corporate sustainability."

Anil Agarwal, Vedanta Group, Chairman (2013): They all do just as we would do. I do my best in my place just like any person does his best. If we donate back to humanity, we will care about changing life, not earning brownie points from Allah. Above all, only our mythological story encourages us to support humanity by fighting stuff.

Indu Jain, Chairperson, The Times Group (2013): India's corporate social responsibility activities set a concrete grassroots sustainability strategy through alliances and collaborations with sustainable growth strategies. At the root of the answer is the fundamental unity of all actors in forming a distinct path to a equal and equitable social order.

Sachin Pilot, Minister of Corporate Affair (2013): “As important actors in national and global economies, Corporates enjoy and capitalize on natural, social, human and economic resources. They need to look beyond shareholder value and make sustainability a core driver of their strategy. This is important to embed entrepreneurship more firmly into social realities of the day, to ensure that they use these resources judiciously and without discounting prospects of the future generations”.

Warren Buffett (2012): Companies should take full account of the environmental impact of all their actions behind sustainability strategies. "Taking shortcuts is not the pathway to achieving sustainable competitive advantage, nor is it an avenue toward satisfying customers". “It takes 20 years to build a reputation and five minutes to ruin it”

Dr. Abdul Kalam, former President of India (2012): Sustainable technologies are applied to the manner in which resource use is planned to meet human needs while protecting the ecosystem, in order not only to be met today but also for future generations.

J.R.D. Tata, the Tata Group 's founder (2012): Jamsetji Tata's money accumulated by his family. Often this money is trustworthy and utilized for people's gain solely. The process is now complete; citizens have consistently returned to what comes from the government.

Ratan J. Tata, President of Tata Group (2012): There are two options in the developing world. The first is to relax and respond only when there are difficu lties. The second thing is that, in the interests of the future generations, we act as conscious citizens and rise above our common interests, so that history does not show we have denied their livelihoods.

Narayana Murthy, Creator of Infosys (2012): social duty is to build optimum benefit for owners in a circumstance where it is equal for all of its stakeholders, staff, customers and the society, the state and the climate.

CSR is meant to positively contribute to the social and economic growth of our societies. Rajashree Birla, Chairman of Aditya Birla Foundation for Community Initiatives and Rural Development (2012). It would continue to give the poorer parts of society a stronger, healthier existence and raise the index on human growth in the world

20.3 Significance of Corporate Social Responsibility

Corporate Social Responsibility plays very significant role in smooth functioning of organizations. It includes the following elements.

20.3.1 Social Responsibility and Customer Relationships

Some of the main aspects of CSR is that it allows organizations to consider the value of meaningful involvement in societies outside basic ethics. Business consultant Robert Moment states in his essay 'The 7 Principles of corporate ethics,' that businesses in the 21st century will ensure their consumer partnerships are long-term. They will have to engage in the group and offer back. Your business is strengthened by this collective link to the local communities you run.

20.3.2 Motivated Employees

Staff are the most valuable commodity of a organization. It is the assumption of a company's dedication in terms to CSR alignment with this primary stakeholder community. This ensures that workers are handled with dignity and equal terms of jobs. Good recruiting policies and non-discriminatory environments are also needed. It strengthens corporate integrity and encourages cooperation.

20.3.3 Probability and Value

A CSR strategy increases competitiveness and efficiency for companies. Implementing energy management and waste disposal lowers operating and environmental expenses. CSR frequently enhances corporate accountability for financial consultants, newspapers, creditors and local governments and their openness. It in effect strengthens its image in the collection of stocks for investors such as mutual funds incorporating CSR. It ends in a positive loop in which the company raises its market valuation and enhances its exposure to acquisitions.

20.3.4 Showing A Free Commitment

These two types of CSRs converge to demonstrate true dedication to a cause inthe most effective corporate social responsibility initiatives. An company that incorporates recycled resources in its goods, offers support for environmental causes and encourages workers to take compensated time off volunteering with environmental organisations, for example, will show a true environmental dedication that extends beyond a single CSR program.

20.3.5 Social Media Visibility

The value and popularity of social networking is one of the factors why businesses will have noticeable CSR promotions. Organizations looking to defend their reputation recognise that social networking is a collective experience. In the case of marketing or designing employee incentives, a corporation's social obligation utilises social media for the advancement of such practices to build a supportive promotional atmosphere which is a perfect opportunity to reach the audience more thoroughly than the goods or services

20.3.6 Public Relations Benefits

Public relations are important tool for influencing the opinions of customers and creating an identity of the business. Corporations that vigorously advocate corporate accountability also take action to support such actions through the mainstream. Information regarding corporate donations, voluntary employees' programs and other CSR initiatives is a powerful tool for branding which enables online and print media to generate publicity for you.

20.3.7 Government Relations

Corporations promoting corporate accountability usually provide a more straightforward background of interacting with legislators and regulatory bodies. By comparison, corporations that ignore corporate obligation continue to follow a number of investigations and evaluations, sometimes called on by civil sector organizations. The further optimistic the general view is that social accountability is taken seriously by a company; the less probable it is that advocacy organizations initiate media movements and seek regulatory inquiries.

20.3.8 Building a Positive Workplace Environment

Eventually, the supportive atmosphere you build for your workers is one of the biggest benefits to encourage social accountability in the workforce. When employees and management feel that they work for a truly conscious company, they are most likely to be more enthusiastic and committed to their jobs. It helps them to develop a sense of belonging and collaboration that unites us and contributes to happy, more successful jobs.

In conclusion, Corporate Social Responsibility has become an important issue for the following important reasons.

1. CSR helps improve business-stakeholder partnerships.
2. This provides for quality development and encourages creativity.
3. This responds as a financially responsible organization to top business talent.
4. Provides workers with more inspiration.
5. The effective corporate governance system mitigates risk.
6. Improves stakeholder knowledge setting capacity.

20.4 Drivers of Corporate Social Responsibility

The following key drivers of CSR in India can be proved as sustainable corporate in India.

Institutional Drivers

The amount of policy decisions to direct or regulatory CSR operations in India is growing. In India. Many analysts in this memorandum suggest the Indian Government would ultimately follow identical European regulatory system mechanisms for compulsory transparency and disclosure.

Business

In India, businesses are also a significant force for CSR. The businesses concentrate around how shifting towards more responsible corporate standards will lead to cost control.

Quasi-public bodies

Bursaries play significant role in increasing market awareness and promoting coverage on sustainability in Hong Kong, Indonesia, China and, more recently, Singapore and Thailand.

Employment

Recruitment / retention remains a main driver, which shows how important it is for companies to attract and maintain the right staff. Most businesses working in Asia face the tremendous task of identifying and retaining highly trained staff, in particular at the management level. The constant pressure is to find good professional talents. The war for talent in all industries is consistent

Transparency and accountability

Families also hold holdings in broad listed firms of other Indian businesses. It is being asked whether businesses are in the interests of all stakeholders in these circumstances. That is why transparency is an essential move in CSR. This exposes the actions of businesses to market review and demonstrates that a corporation respects its partners' views.

Social media

The social media plays significant role in promoting CSR in India. There is little way. In China alone over 2.3 billion bloggers are engaged in online discussion of contemporary concerns in a broad and continuously increasing network culture.

Supply chain concerns

The laboratory of the planet is seen in India. With rising market demand for more responsible goods, India's supply chains could be much more oriented. Attention is not only based on research and civil rights, the climate and the traceability of goods.

Environment

Environmental problems, not only in this area, but internationally, are seen as one of the less significant factors of corporate social responsibility.

20.5 Key Elements for Implementing CSR

Every organization has its own way of implementing CSR; some of them have it temporary, informal and reactive way while some organization has an institutionalized approach towards implementation of CSR. Implementation varies with many factors which include the type of industry, the current business environment, the CEO‟s opinion towards CSR, and other factors. Following are some of the Key elements affecting implementation of CSR:

CEO (Leader of the company): The company's top management has a social reaction theme. The magnitude of a vast assortment of corporate reactions is defined by the highest contribution or lack of it. The company is pervaded whether the upper management or CEO lacks a clear sense of social accountability.

Mission and Vision Statements: A vision and mission statement plays an important role in implementation of CSR. It is the vision statement, which provides the directions in which a firm is proceeding or will move. Mission is related to what a firm should do to achieve its vision.

Size of the company: Size of the company does affect the implementation of CSR. Mostly large scale companies are more organized and well documented in implementation of CSR, whereas small scale companies may not be organized or have structured CSR implementation.

Finance (Liquidity): Profitability and cash flow has an influence on implementation of social programs by companies.

Issues Management: Various issues which are happening near to the company where it is operating drive them to undertake social responsibility. For example the problem of fresh water in Jamnagar is a major issue, whereby Reliance Industries have tried to solve it by making desalination of sea water, the water could be used for various purposes after processing. So issue management is a critical factor to be addressed by corporate tactfully for implementation of SR.

Expectations of society: the implementation of the CSR is based on the expectations of the society from the companies. Firms have to identify the need of the society in which it operates. Sometimes society needs donation, education, health building, employments, etc. which should be taken care by the corporate.

Penetration of CSR: the structure of the organization should be such that CSR should be penetrated in the organization from the top to bottom level, than only institutionalized CSR could be effectively implemented. Social goals of the organization should be aligned with the vision and mission statement of the company, otherwise it will be slighted. CSR could be penetrated by forming a separate department, or committees to implement CSR

20.6 CSR in India

Section 135 of the Company Act, 2013 and its Rules provide for the requirements for the determination of the fitness of a corporation for CSR and the enforcement and monitoring of its CSR Policies for corporate social responsibility in India. The Framework is regulated by India has the most developed CSR framework and delivery plan to set a precedent for meeting environmental targets and stakeholder participation in national development.

The CSR sector expands and will become a specific center of expertise to evaluate and accomplish development goals for the coming years, because India is one of the global economies that has established that CSR is required to enact regulations.

CSR for companies have been mandated through legislation in India. The Act incorporates CSR requirements which covers actions which can be performed under CSR respectively, in Section 135 which Schedule-VII of the Act. Companies with the revenue net of 500 crores or more, a turnover of 1,000 crores, and a net income of 5 crores or more, are expected to discharge their CSR duty to develop and prescribe their CSR strategy, including the measures to be performed with regard to allocation of funds, in the respective CSR committee for their boards. CSR projects will invest at least 2 percent of the total operating income of the three financial years immediately preceding them.

20.7 Motivation of the study

A study on relationship between CSR and companies can focus on welfare activities of society. CSR activities are mandatory for profit making companies under section 135 and schedule-VII of The Company Act, 2013.It is strategy not a charity.IT/ITeS companies has made one of the great success stories on modern India puling India on global map as the leader of IT/ITeS by fueling economic growth of the country. The industry generated revenue in jumping manner from FY2014-FY to 2017-18.Total IT/ITeS revenue generation is registered as 591,506.6 INR during FY2014-FY to 2017-18 In the IT-ITeS market in India, IT services have become the most productive sector. The key component of this division is the sale of resources. The comparative benefit of 1/3 to 1/4 of the U.S. leads to the development of the UniqueSelling Proposition (USP). IT makes up about 7.5% of India's GDP. The sector was third in the FDI (Foreign Direct Investment) share of India and between April 2000 and December 2017, earned US$ 29,825 billion of FDI inflows. IT / ITES has been recognised within the ministry as a distinct agency. The rising scale of company is one of the persuasive reasons. Indian IT-ITeS sales in 2016-17 rises to roughly USD 151.0 billion from USD 141.0 billion in FY2017-18. Approximate growth of approximately 7.0 percent may also be identified. In 2018, the industry's overall market size rises to US$ 151 billion. In terms of the social, ethnic, international and geographic contexts, the IT / ITeS staff are highly diverse. The direct jobs by about 4.0 percent in the IT services and BPO / ITeS sector is projected to exceed 1,05,000 and achieve a total by 3.96 million workers throughout 2017-18. This is a significant achievement. angalore region. Owing to some of the above facts, it's significant to know the contribution of companies under the industry in question, towards CSR.

Bangalore has a large and sustainable economy of high-tech and light-weight manufacturing, automotive production, earthmoving, aeronautics, textiles (e.g. IT, IT management, biological engineering, science and developments).

Austin (USA), Sans Francisco (USA) and Taipei (Taiwan) placed fourth in 2001 in the United Nations Human Development Report as the top "Technology Hubs of the World."(www.cgge.aag.org) Bangalore was taken as the geographical prospect for survey owing to another interesting fact The US$ 47,2 trillion economy in Bangalore has been a big economic hub in India, rendering it the 3rd largest FDI recipient in an Indian region with a share of US$ 3,7 trillion as at this decade. It was, hence felt that there would be a relevant need to find out how many of the companies of this megacity would be contributing towards the CSR activities.

20.8 Conceptual undertaking for the study

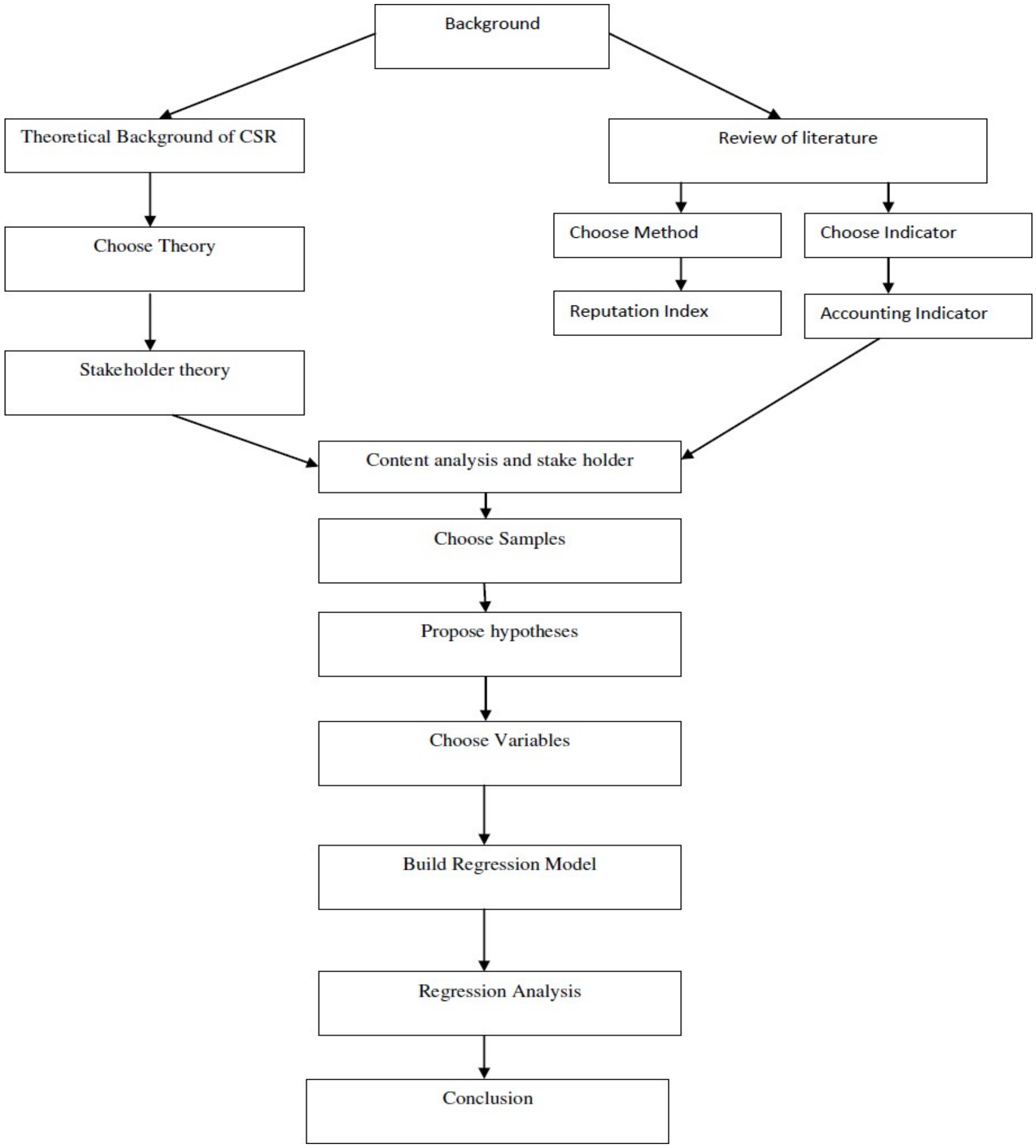

Figure-20.3 Conceptual framework (source: self-prepared)

20.9 Statement of the Problem

Issue declaration is a vital element of a analysis. It requires clearly to illustrate that:(a) the problem exists, (b) facts to support the issue, (c) proof of a existing trend which has contributed to this question, (d) interpretations of actual ideas and words (which can be defined as mentioned in subsection below), (e) an unmistakable description of the condition, (f) possible reason associated with the problem as well as (g) a precise and realistic articulation. In addition to this, it's exceptional. The topic is a short overview of the research field suggested. Incorporate two words like that. A corresponding illustration will display the current of thoughts in the declaration.

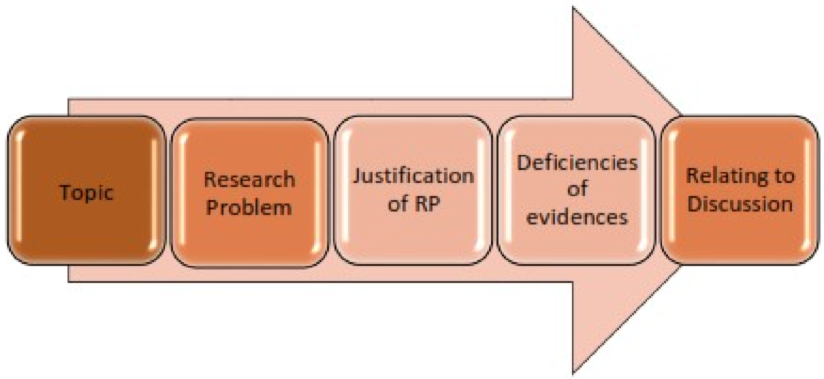

Figure-1.4 Components of problem statement

In the present study, it is to be examined that CSR activities as business strategy in IT/ITeS companies in Bangalore region. The questions before theorists` solutions on inclusiveness of CSR in business strategy in IT/ITeS industry and correlations between strategic financial benefits and CSR with reference to Bangalore region. The research gaps are also to be identified in the present study which will help to constitute objectives of this study.

20.10 Summary

The concepts and practices of Corporate Social Responsibility (CSR) are increasingly becoming well-established, and continuing to gain considerable attention from business leaders, government officials and academics. CSR is defined as how business takes account of its economic, social and/or environmental impacts in the way it operates, while maximising the benefits and minimising the downsides. The definitions range from business development focused ones on the one hand, to those incorporating a wider range of stakeholders and aims on the other. The traditional role of governments as the main body responsible for improving the living conditions of the society has become less viable with the increased demands on public resources; placing more emphasis on the role of business in society and increasing the role of CSR. Therefore, CSR is now an important factor in the corporate decision making agenda, where many companies are considering how to improve their relationship with customers, the community and the environment, while ensuring their business is successful. Companies bill 2013 in which companies are mandatory to spend at least 2% of net profit in corporate social profit indicates that the governments also promote the corporate social responsibility activities for the government or private company to more involve in social and community development like health, education, skill development, rural development.

20.11 Key Words

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

20.12 Self Assessment Questions

1. What is the definition of the corporate social responsibility ?
2. What about Business protecting of corporate social responsibility ?
3. To Discuss the promoting stake holders interest

20.13 References

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M.Com. (Accountancy)

Semester - IV

Paper – VI - BUSINESS ETHICS AND CORPORATE GOVERNANCE

Time : Three hours **Marks: 70**

SECTION A — (5 × 3 = 15 marks)
Answer any FIVE of the following.

1. (a) What do you mean by business ethics?
   (b) What do you understand by morality?
   (c) What do you mean by ethical leadership?
   (d) What do you understand by ethical dilemma?
   (e) Define Corporate Governance.
   (f) What do you understand by 'Corporate Sustainability'?
   (g) What is corporate social responsibility?
   (h) What is 'Whistle-blowing'?
   (i) Mention two benefits of Corporate Governance to shareholders.
   (j) State two ways by which ethics influences behaviour.

SECTION B — (4 × 10 = 40 marks)
Answer any FOUR of the following questions.

2. Describe the nature of business ethics.
3. Discuss ethical leadership styles.
4. What are the factors that lead to unethical practices?
5. What are the characteristics of ethical dilemma?
6. State the difficulties involved in ethical decision making.
7. State the common ethical dilemma in finance with example.
8. What is the purpose of corporate governance?
9. How does corporate social responsibility contribute towards social development?

SECTION C — (1 × 15 = 15 marks)
Answer the following.

10. Explain the theory of Kohlberg's six stages of moral development.

Or

11. What is the relationship between Corporate Social Responsibility and Business Ethics?