



Corporate social responsibility and business ethics: A conceptual framework

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DOI: <https://doi.org/10.33545/26648792.2020.v2.i2a.29>

Abstract

In common parlance, the term 'business ethics' refers to the set/systems of principles and rules of conduct applied to business. In practice, the term has been used to describe the do's and don'ts for business, the various things that business should or should not do, viz., not violating any law, avoiding unethical practices, making donations to charitable causes; taking up development projects in backward areas, paternalism towards employees, good public relations etc. However, the contours of business ethics have undergone a sea change over the past couple of years. Far from being a set of abstract do's and don'ts for business, business ethics have come to represent a set of fundamental beliefs about business. The opinion is growing that business owes a debt to society and that it should repay it in a transparent and easily perceivable manner. No doubt, business - a social organisation cannot and should not be allowed to conduct itself in a manner detrimental to the interests of the cross sections of the society as also to the various constituents of business at large. This paper is focuses on Corporate Social Responsibility shifts towards Business Ethics.

Keywords: business ethics, corporate social responsibility, human values, work environment

Introduction

Growing importance of business ethics notwithstanding, the very conceptualization of the term appears to have been done rather inadequately. The word 'Ethics' which in Latin is called 'ethicus' and in Greek 'ethikos', has come from the word 'ethos' meaning character or manners. Ethics is thus said to be science of morals; a treatise on this; moral principles; recognised rules of conduct. As applied to business firms, ethics is study of good and evil, right and wrong, and just and un actions of businessmen. Corporate ethics does not differ from generally accepted norms of good or bad practices. Peter Drucker says: "There neither is a separate ethics of business, nor is one needed." For, "men and women do not acquire exempt from ordinary rules of personal behaviour of their work or job. Nor, however, do they cease to be human beings when appointed vice-president, city manager, or college dean. And there have always been a number of people who cheat, steal, lie, bribe or take bribes. The problem is one of moral values and moral education of the individual, of the family, of the school." Likewise, Post and Davis in their masterpiece work Business and Society opine: "...if dishonesty is considered to be unethical and immoral in the society then any businessman who is dishonest with his or her employees, customers, shareholders or competitors is an unethical or immoral person. If protecting others from any harm is considered to be ethical then a company, which recalls a defective or harmful products from the market is an ethical company. To be considered ethical businessmen must draw their ideas about 'what is desirable behaviour' from the same sources as anybody else would draw. Businessmen should not try to evolve their own principles to justify 'what is right and what is wrong'. Employees and employers may be tempted to apply special or weaker eth rules to business situations. But the society does not condone such exceptions. People who are in business are bound by the same principles that apply to others."

Advantages of Ethical Behaviour

The advantages of ethical behavior in business include the following (Mitchell, 2001):

Build customer loyalty: A loyal customer base is one of the keys to long-range business success. If consumers or customers believe they have been treated unfairly, such as being overcharged, they will not be repeat customers. Also, a company's reputation for ethical behavior can help it create a more positive image in the marketplace, which can bring in new customers through word-of-mouth referrals. Conversely, a reputation for unethical dealings hurts the company's chances to obtain new customers. Dissatisfied customers can quickly disseminate information about their negative experiences with the company.

Retain good employees: Talented individuals at all levels of an organization want to be compensated fairly for work and dedication. Companies who are fair and open in their dealings with employees have a better chance of retaining the most talented people.

Positive work environment: Employees have a responsibility to be ethical. They must be honest about their capabilities and experience. Ethical employees are perceived as team players rather than as individuals. They develop positive relationships with coworkers. Their supervisors trust them with confidential information.

Avoid legal problems: It can be tempting for a company's management to cut corners in pursuit of profit, such as not fully complying with environmental regulations or labour laws, ignoring worker safety hazards or using sub-standard materials in their products. The penalties if caught can be severe, including legal fees and fines or sanctions by governmental agencies. The resulting negative publicity can cause long-range damage to the

company's reputation that can even be more costly than the legal fees or fines.

Human Values in Management

Management is the process of arranging work-activities in organisation so that their goals are achieved 'efficiently and effectively'. Modern organisations are of different kinds: government department, educational institutions, charitable or not-for-profit organisation, industrial, commercial and other types of business organisation. They have different structures, different ways of working and different goals. Yet there are certain management functions, like planning, organising, leading, controlling, which are common to all organizations. Management science is the academic discipline which provides conceptual tools for performing these functions systematically and efficiently. The maximum emphasis in management literature, however, is on the problem related to business organisations. The goals of a business organisation are defined in purely economic terms; maximizing profit, increasing market share and turnover, gaining strategic and competitive advantages, etc. The dominant attitude is summed up in the often quoted phrase that 'the purpose of business is to make money'. Examination of the moral, worth of this goal, and the social, human and environmental costs of pursuing it, are not a part of management science. The management science takes the business goals as valid and given.

Corporate Social Responsibility

A business philosophy which stresses the need for firms to behave as good corporate citizens, not merely obeying the law but conducting their production and marketing activities in a manner which avoids causing environmental pollution or exhausting finite world resources. Some businesses have begun to behave in a more socially responsible manner, partly because their managers want to do so, and partly because of fear of environmentalist and consumer pressure groups and the media, and concern for their public image. It is argued that socially responsible behaviour can pay off in the long run, even where it involves some short-term sacrifice of profit. However, the idea of social responsibility of business organisation gained momentum with the passage of time. It was generally accepted that the government should play an active role in safeguarding the interests of workers, consumers and of the collective society, from the harmful activities of industry and business. The democratic society cannot tolerate licentious use of economic freedom given to the corporations. The corporations thus have social and moral responsibilities, in addition to their economic aims. Their value lies in the social worth of their activities and not in the profit of their owner and managers. This was a moderation of the earlier purely economic model of business. It has been called the socio-economic model. Social regulation of business is done in two ways. One is through the institution of regulatory bodies. The other is enactment of laws to punish those whose activities harm the society or which violate the commonly accepted moral norms of conduct. A large number of such laws have come into existence, dealing with things like, safeguarding the interests of labour, their working conditions, wages and employment practices; product quality and safety; economic offences and trade practices, environmental protection etc. Many powerful companies which acted in socially irresponsible manner have become bankrupt under the joint onslaught of medis,

regulatory bodies and judiciary They discovered the hard way that if being ethical costs money, being unethical costs far more. In addition to direct governmental control, there are many other ways in which an enlightened society exerts pressure on powerful corporations to conform to its accepted social and ethical norms of conduct. The educated workforce, particularly the highly qualified professional class, is reluctant to work for unethical and socially irresponsible companies. A growing number of socially conscious customers are avoiding buying product of such companies. Even investors are becoming conscious that their money should not go to support of a number of mutual funds like, 'social awareness fund', 'ethical investment fund', etc. And lastly, the dealers, suppliers and other business associates avoid associating with companies having doubtful reputation. Many business organisations are voluntarily accepting it, prompted by their own growing social and moral consciousness. Example-India's oldest steel producer, TISCO, has voluntarily undertaken many measures for employee welfare and social and community development. It has given even a legal shape to its sense of social responsibility by adding the following clause in its Article of Association. "The compact shall have amongst its objectives the promotion and growth of the national economy through increased productivity, effective utilisation of material and manpower resources and continued application of modern scientific and managerial technique in keeping with national aspirations," and the company shall be mindful of its social and moral responsibilities to the customers, employees, shareholders, social and the local community".

Shift to Ethics

The concept of corporate social responsibility gained prominence by the 1960s. Today it is a well-accepted part of business ethos. The shift from the economic model of business to the socio-economic model meant that businesses were considered not only economic actors, but social actors as well. This process of value shift has gained further momentum in the last couple of decades. Companies today are being considered moral actors as well. The successive change in the choice of descriptive terms-economic actors to social actors to moral-reflects the changing personality of corporations. In the word of a contemporary management thinker. "Corporation are expected not only to create wealth and produce superior goods and services but also to conduct themselves as moral actors, as responsible agents that carry on their business within a moral framework. As such they are expected to adhere to basic ethical principles, exercise moral judgement in carrying out their affair, accept responsibility for their deeds and misdeeds, be responsive to the needs of other, and manage their own values and commitments".

This view represents a marked departure from the classical economic thinking of the Western world. Many companies globally are including ethical values as important guiding principles for their business activities. The phenomenon has been called the 'moralising of corporations'.

1. Rationale for the Shift

Why should companies submit themselves to the demands of ethics? The straight answer them to do so. In today's democratic times no one can survive and grow by going against the collective social expectation and the 'social will'. This changed social expectation is not merely a passing change in the ideological temper. It has solid reasons for it. Today, business corporations

have become much more powerful than in the past. Every aspect of modern life is affected by their activities, attitudes and values. Human society globally has learnt the hard way the sad lessons of permitting such value-neutral attitude in business. It does not want perpetuation of,

“The spiritual agonies and moral horrors, the tyranny and the brutal lust for power; the terror and the cruelty; the naked cynicism that have engulfed the world since the west’s descent into the First World War”.

There is another and a more pragmatic reason for the increasing acceptance of shift to ethics. Business persons are realising the economic and the strategic benefits of ethics in business. It improves their public image, and hence their market positioning and relationship with regulatory bodies. Employees are more loyal and feel proud to work in a value-based ‘good’ company. An ethical atmosphere at work place inspires them to be more creative and more productive.

2. Corporate Ethical Conduct

To be moral actors, corporations should have moral sensibility and moral intelligence. That means they much practice moral virtues, particularly those of integrity, fairness, and concern for other. At a lower level of moral sensibility they must ‘do no harm’. At a higher level, they should seek out ways to ‘do good’. Furthermore, they must be socially and morally responsible i.e., must practice the ‘ethics of responsibility’. These ethical virtues and principles are the same as those applicable to individual conduct. However, there is a major difference between the application of ethics to individuals and to the corporations.

Individuals have complete freedom to choose the kind of life they want to live. One can even choose to live like an ascetic monk with no stakes in the economic life of the community. Corporations do not have that kind of freedom. Their ethical sensibility must therefore, be circumscribed by the economic imperative. Both economic and ethics mutually circumscribe each other in case of business organisation. That is the essential distinguishing feature of do a different from individual ethical sensibility. Modern managers thus have to do a difficult tight rope walk of balancing both economics and ethics. The level of their ethical sensibility depends on several factors; their financial position, the vision and value of their founders, the value temper of the society in which they operate, and the moral sensibility of their managers.

3. Ethics and Economics

The relationship between ethics and economics is quite complex and depends on a number of external factors, like the pressure of competition, the urgency of company’s financial needs, the corruption level of the governmental agencies, and the value temper of the society. Of crucial significance is the company’s own level of moral sensibility and commitment to ethical values. In other areas of life, taking an ethical stance is often a tough decision. It may mean foregoing business opportunities, or accepting lesser profits for the sake of upholding ethical principles. In extreme cases it may even be choice between staying in the business or going out of it. That is the implication of being a moral actor.

However, it will also not be true to say that pursuit of profit and pursuit of ethics are always in positions of uncompromising opposition and they will always remain so. If that were so, there would be no case for ethics, either in business life or in any other walk of life. With better understanding of the holistic view of life,

its goal and values, with growth of moral and human sensitivities, and with some imagination, inspiration and training, it is possible to reconcile the goal of profit with ethical values.

As noted earlier there is always a cost attached to being ethical. However, the cost appears high if we take a ‘short term’ views. But on a long term basis an ethical company stands to gain much more than the immediate cost it may have to pay to take an ethical stance. This is not just a theoretical proposition. A highly successful and ethical company says:

I am convinced beyond a question of doubt that it does “pay off” in the long run to be ethical. By paying the price of being ethical today, we are actually investing for the longer good. We must not reject ethical behaviour because it is hard in the short run, but embrace it for the fact that it yield tremendous dividends over the long run.

Conclusion

To conclude, the purport, explores the exact ends. In this world, the economic, social and environmental depression is seen today in different segments in the global world. One of the main causes is the impairment of ethical values both morally and socially, which basically the paper shows that ethics cannot be a matter of choice to be exercised by a company as per its convenience, nor can ethics be something that has to be preached by top management and to be followed by the officers and staff of the company. So also, ethical conduct cannot be an object of display to be shown to the world at large that the company is meeting its social obligation.

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