

Linking Business to Corporate Social Responsibility: the role of Ethics

Dr V. Basil Hans

St Aloysius Evening College, Mangaluru, Karnataka State, (India)

ABSTRACT

Macroeconomic growth policy and programmes are now aimed at both faster growth as well as inclusive growth. This being the essence of sustainable development, both consumers and firms look beyond utility and profitability. The goals of choice behaviour in the market have progressed beyond the hedonistic principle of mere material gratification. It now includes, besides the economic dimension, ethical issues and nuances concerning various stakeholders that cannot be ignored anymore. The core ethical issue is whether the conduct of the market participants is socially responsible. This brings in two behavioural dimensions and concepts: (a) Corporate Social Responsibility (CSR) with respect to business organisations; and (b) Consumer Social Responsibility (CnSR) with respect to consumers. While both these concepts are equally important, the present study focuses on how ethics integrates business and social obligations. This paper discusses how ethics integrates business with CSR despite some inhibitions by the stakeholders of business.

Keywords: *Business, Corporate Social Responsibility, dimensions, Ethics, India, society.*

I. INTRODUCTION

“Treat people as an end, and never as a means to an end.” – Immanuel Kant

Globalisation supplemented by innovation has brought about tremendous changes to the nature and structure of the market as well as to its participants i.e. business organisations on the supply side and consumers or buyers on the demand side. Now companies prefer to have multiple objectives – financial and social included. The goals of choice behaviour in the market have progressed beyond the hedonistic principle of mere material gratification. It now includes, besides the economic dimension, ethical issues and nuances concerning various stakeholders that cannot be ignored anymore.

The ethics of the organisation define its moral obligation not only to its employees but also to the society. This is the essence of corporate social responsibility (CSR). The compulsions for companies arise both from legal requirements/compliance and consumer expectations of a higher order. In India, however, despite mandating the implementation of CSR in the Companies Bill (2013), many corporates are yet to adopt appropriate policies and procedures that fall into the context of CSR Activities. More still it is necessary to see how and how much of CSR is ‘mandatory’, ‘philanthropy’, and ‘participatory’. Will firms investing on CSR considered it a ‘pleasure’? Or a ‘pressure’?

It may be questioned whether business ethics needs philosophy. Answer is not simple. However, it is obvious that to be ethical socially or commercially needs some influence or some pressure, overt or covert. Ethics is now not just for the sake of religious or philosophical moorings but also for economic and commercial dealings. When Alfred Marshall made political economy or economics the study of human welfare, he also expected

economics to be the handmaid of ethics and the servant of practice. But are there ethical consumers and ethical producers and sellers? Is ethical business just and ideal? Even if it is an ideal can it be an idea that gets into business at some stage – inception or growth or maturity?

II. ETHICAL THEORY AND BUSINESS

The word ‘ethics’ has come from the Greek word ‘ethos’ and the Latin word ‘ethice’, meaning character or manners. Etymologically, the word ethics is also the moral philosophy and is what is considered to be what is good for an individual and society ("Ethics"). These moral principles are what guide an individual on how to act and their behaviour. Ethics is thus said to be the science of morals: of morals and rules of conduct. Conduct of a person is a series of actions – good or bad; right or wrong; moral or immoral, proper or improper, relatively speaking. The line between the two categories may be thin indeed as between self-interest and selfishness, the former leading to benevolence and the latter to malevolence.

Some say that there is individual ethics and society’s ethics. However, when we say rules, it cannot be for a single person, it refers to rules of the game – in society, in state, in business. In an ‘ethical’ society, it is harsh, to say, “Mind your own business”. Each culture within a society live by their own set of ethics and therefore people who are raised in those cultures by those certain set of ethics usually have those ethics as their own.

According to Joyner and Payne, values, ethics, and corporate social responsibility (CSR) are linked in the culture and management of a firm – e.g. minimising externalities, anti-corruption measures, reducing monopoly practices etc. One of the emerging areas of CSR is ethical practices by business concerns. Alfred Marshall, the welfare economics who considered economics as the study or ordinary business of mankind in relation to material requisites also said that economics is the handmaid of ethics and servant of practice. Being ethical – applies both to consumers as well as sellers. Their moral obligation is to do what is right, just and fair.

The field of ethics (or moral philosophy) involves systematising, defending, and recommending concepts of right and wrong behaviour. Philosophers today usually divide ethical theories into three general subject areas: meta-ethics, normative ethics, and applied ethics. Applied ethics involves examining specific controversial issues, such as abortion, infanticide, animal rights, consumers’ rights environmental concerns, homosexuality, capital punishment, or nuclear war. The fields of applied ethics are: medical ethics, business ethics, environmental ethics, sexual morality, social morality etc.

Thus, being ‘applied’ and ‘appealing’ in nature, ethics helps business and society to come closer, and be amenable for scrutiny, monitoring and evaluation as per set standards. Brian Harvey says that ethics stands for practice (i.e. conscious appeal to norms and values) as well as reflection on that practice.

III. BUSINESS AND SOCIETY

Basically business managers are focussed on profit maximisation through cost and output management. Besides empire-building and resources and relationship management, big firms have various issues and constraints to deal with – say, recession, demonetisation, GST impact etc. Business is a system of power and power relations decide other relations. Business is in society and hence concerns everyone in society. Social and human relations of workers, sellers and buyers – even in market place – are worthy of research.

From the times of Marx (e.g. "the separation of the worker from the means of production) to McDonads (e.g. the alleged bad business ethics of selling unhealthy food, exploiting workers and children, torturing animals, and destroying the Amazon rain forest and so on), the relationship – sweet or bitter – between business and society has been subject to critical discussion and debate. How to balance the powers of the principal and agents? Newer business preoccupations with social responsibility may become the modern macro-sociological equivalent of the micro-sociological ideology of human relations that followed the declining utility of appeals to property rights in labour-management relations in the 1930s.

The groping efforts of modern businessmen to define an appealing ideological claim to their legitimacy in society and in their organisations, an ideology suited to modern industrial-democratic circumstances, may be interpreted as linking them to their forefathers. Businessmen were, after all, struggling in the 18th and 19th centuries too: revolutionary capitalist movement against mercantilism, absolute monarchism, aristocratic principles, and inhibiting religious beliefs, with a secular gospel that emphasized private property, efficiency, wealth, and hard work. The new and emerging claims of business leaders and the actions they seek to justify are among those phenomena that deserve attention under the rubric of business and society.

Biases in business as in every other game/activity cannot be ruled out. It is undoubtedly true that businesspersons may harm others by failing to do what is required by the structure of business. Competition, market forces, and the values and ideals that support business combine to require certain actions by businesspersons. These actions are necessary in order to keep firms profitable. And, if businesspersons fail to keep firms profitable, significant harm is caused to investors, employees, consumers, and communities. This potential harm, proponents argue, lends support to the idea of a special ethics.

Just as business interest groups there are interest groups that act as firewalls when business practices corrupt societal values and relations. Shortage of cash is one thing, trust deficit is another. Can business be left alone for self-regulation? Peter Miles opines, "Business and society should be setting higher horizons when considering ethical values in business. Society should not opt out from setting the framework within which business operates. Business would then be set free to generate surpluses and dispose of them within that framework, in the best possible ethical taste."

IV. BUSINESS ETHICS

Business ethics is the study of 'proper' business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Ethical behaviour and social responsibility in business is considered the key to success for a company. Also, it is a way for businesses to gain the public's trust. Here are some examples of the positive impact that ethical behaviour and corporate social responsibility has on a business:

- ✓ Attracts customers to the firm's products, thereby boosting sales and profits.
- ✓ Makes employees want to stay with the business, reducing labour turnover and therefore increase productivity.
- ✓ Increases the number of employees wanting to work for the business, reducing recruitment costs and enabling the company to obtain the most talented employees.
- ✓ Attracts investors and keeps the company's share price high, thereby protecting the business from takeover.

To gain an understanding of Business Ethics, it is important to understand the difference between ethical and unethical behaviours. Most employees of companies feel like fraud is a victim-less crime, but the repercussions of fraud trickle down to each and every one of us. For owners, ethics brings in the element of value-orientation to complement in the value-addition that may already exist.

The fact that these days, jobs are more and more under contract, job security issues are mounting. Performance based pay being hotly discussed, positive and negative rewards are becoming part of the returns to labour and sustainable labour paradigms. Ethics enters here in a big way. It paves the way for corporate social responsibility, to protect, provide and promote the best interests of consumers, producers, workers and regulators.

V. CORPORATE SOCIAL RESPONSIBILITY

CSR in name has existed for over 70 years. Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship or responsible business) is a form of corporate self-regulation integrated into a business model. CSR is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple-Bottom-Line- Approach”), while at the same time addressing the expectations of shareholders and stakeholders. Key CSR issues include environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.

VI. BUSINESS ETHICS AND CSR: INTEGRATION DESPITE INHIBITIONS

Managerial (business) decisions vary across time and space – from the simple (like resource allocation) to the complex (like stakeholders’ influence, competition) and the more complex (like need for better information and advanced insights etc., need for survival). Man management, for instance is no longer confined to conventional labour management or classical captain (manager) of the ship. The emerging breed of entrepreneurs is of a new genre. We now read/study ‘social economics’, hear/see ‘social entrepreneurship’, and engage in wealth management, and not just wealth creation. There is an emerging trend of a socio-economic orientation to the study and research of business. That helps to avoid tyranny and achieve harmony in society at large and business society in particular. Balancing the role and functions of state and market is also then possible. Ethics in business education and business environment – makes for a meaningful reciprocity.

Now companies prefer to have multiple objectives – financial and social included. The goals of choice behaviour in the market have progressed beyond the hedonistic principle of mere material gratification. It now includes, besides the economic dimension, ethical issues and nuances concerning various stakeholders that cannot be ignored anymore. The core ethical issue is whether the conduct of the market participants is socially responsible. Are there ethical consumers/ethical sellers? Is there ethical consumption or ethical production for that matter?

CSR – with all good intentions – is likely to be looked with confused or lazy gaze. Several studies reveal that there is low level of responsiveness for CSR, even by the employees. A study conducted in one of the top

Multinational IT Sectors in Tamil Nadu, reveals that 46.7% of the employees express a low level with regard to CSR Responsiveness, and 43.1% of employees expressed a low level with regard to Corporate Ethics. This is not to deny the fact that there is a relationship between CSR expenditure and profits of the firm and the firm size positively affects this relationship. In India, the passage of the Act led to an increase in the average CSR spending of public sector firms from Rs 25.72 million in 2012 to Rs 147 million in 2013. Average CSR expenditure by domestic and foreign firms was Rs 3.79 and 8.5 million respectively in 2011-12, but this increased to Rs 22.6 million and 19.5 million respectively in 2012-13. A steep rise in the number of firms disclosing their CSR expenditure is also seen. In 2010-11, 336 firms had disclosed their donations and expenditure on community and environment related activities. This number rose to 504 in 2011-12, and to 1,470 in 2012-13. There was an increase in environmental reporting by firms as well. In 2010-11, only 35 firms had complied with environmental reporting, while 52 had filed reports in 2011-12. But in 2012-13, there was an increase of 211.5%, with 162 firms disclosing their environmental performance information. As a result the correlation (value) between CSR spending and profit after tax rose from 0.5 in 2011 to 0.8 in 2013.

No doubt, there are some inhibitions. For instance can all the dimensions of CSR – legal, financial, cultural, and environmental – be compatible and possible together, both for large firms and small enterprises? Further, some businessmen tend to consider CSR spending as a negative tax. Their companies might be involved in window dressing and misinterpretation of facts and figures. Because of compulsory CSR spending, the strategic benefit which companies might have enjoyed earlier now reduced, and thus CSR spending is going to be less attractive. In 2012-13, 760 firms had crossed the threshold of Rs 5 crore net profit, but their total CSR contribution was lesser than the 2% criterion as laid down by the Act. The total CSR spending by firms was Rs 33,668 million, but the required spending should have been Rs 45,154 million.

CSR is not always realised, least automatically or unilaterally. There are shared responsibilities and shared values, both during gains and pains. Ethics integrates business with social responsibility, overtly and covertly, by educational persuasion, moral codes and sanctions. That is how business practice becomes part of a culture. Brian Harvey says that ethics stands for practice (i.e. conscious appeal to norms and values) as well as reflection on that practice. As a strategic approach, the industrial sector as a whole must establish a deeper, broader and more diverse engagement with higher education: industry-academia links, interaction and knowledge transfers and skill promotions, and (re)engineering of curriculum and commodities, and labour.

Since business is in society business and society must see eye to eye. The perception, of business as ‘jungle’, “a dog-eat-dog-world”, “market force is everything,” “profit is everything”, “business is amoral”, “business and ethics are incongruous” is a myth. As an integral part of the society, business organisations must conduct business with ethical considerations and socio-cultural concern too. Ensuring this is a collective responsibility: in terms of designing, delivering and disclosing parameters. Every rupee spent on CSR therefore, must be justifiable in terms of value, variety and volume. An ideal CSR practice has ethical, philosophical, and economic dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well socio-economic status. The need today is genuine business responsibility and societal trust in business. Mandatory corporate social responsibility may prove inadequate to inculcate either.

VII. CONCLUSION

Knowing and doing CSR is thus, essential and profitable. Every stakeholder must follow it in word and spirit, as for instance implementing 'Companies Bill 2013' (Section 135) to ensure effective implementation of CSR Practices, as also evaluating its progress. It will. This would ensure that CSR Responsiveness and Ethics of the organisation go hand in hand in bringing about effective CSR Practices that would create a significant outcome toward the growth and development of the nation. For emerging India – the only country to have made CSR mandatory – to succeed in its programmes and schemes of inclusive growth, Make in India etc., there is no need to slow down. Good governance needs good corporate governance too. Therefore, enclosure of the new CSR mandate under the Companies Act, 2013 can be seen an attempt of the government to supplement its efforts of equitably delivering the benefits of growth and to employ the corporate world with the country's expansion programmes. And for the firms anyway, there are several objectives besides profit maximisation, viz. growth maximisation, survival, goodwill and reputation that can be ignored only at the peril of business and society. Do we therefore need special ethics for business? Are the time-tested moral rules out-dated or insufficient? More research is required. The examination of how the circumstances of business in general and modern business in particular bear on the application of moral rules is a challenge that this paper does not even begin to address. It is a challenge that is made most difficult by the fact that there is considerable dispute over the source of moral principles. It should be remembered, however, that this challenge is faced by persons in all aspects of life, not just those in business.

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