M.C.O.-24

Business Ethics and CSR

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By: *Gaurav Sahni*

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QUESTION PAPER

June – 2023

(Solved)

BUSINESS ETHICS AND CSR

M.C.O.-24

Time: 3 Hours] [**Maximum Marks: 100**

Note: Attempt any **five** questions. All questions carry **equal** marks.

Q. 1. Discuss contemporary approaches to business ethics. What are their limitations?

Ans. Different Approaches towards Ethical Behaviour in Business: There are different ways of thinking about ethical behaviour. Some situations offer clean-cut ethical choices. Stealing is unethical. There is no debate about it. There are other situations where two or more values, rights, or obligations conflict with each other and a choice has to be made. For example, suppose that a police officer attends his brother's wedding and finds some guests using drugs there, which is against the law. Should the officer arrest the drug users? Should he be loyal to his brother or to his job? It offers a difficult choice. Various approaches to ethical behaviour give some guidance in making some choices. Some of these approaches are:

1. Teleological Approach: Also known as consequentiality approach, it determines the moral conduct on the basis of the consequences of an activity. Whether an action is right or wrong would depend upon the judgement about the consequences of such an action. The idea is to judge the action moral if it delivers more good than harm to society. For example, with this approach, lying to save one's life would be ethically acceptable. Some of the philosophers supporting this view are nineteenth century philosophers John Stuart Mill and Jeremy Bentham. They proposed that ethics and morality of an act should be judged on the basis of their ultimate utility.

An act would be considered moral if it produced more satisfaction than dissatisfaction for society. It must be understood that this satisfaction or happiness should be for the society in general and not to the people committing the act or the people who are directly involved in the act. For example, not paying the money to someone whom you owe may make you happy but it disrupts the social system of fairness and equity thus making the society as a whole unhappy. Accordingly, this would not be considered as a Similarly, a party who breaks a contract may be happy because it is beneficial to it, but it would damage the society's legal framework for conducting business in an orderly fashion. Hence, it would not be an ethical act.

2. Deonotological Approach: While a 'teleologist' focuses on doing what will maximize societal welfare, a 'deonotologist' focuses an doing what is 'right' based an his moral principles. Accordingly, some actions would be considered wrong even if the consequences of these actions were good. According to DeGeorge: 'The deonotological approach is built upon the premise that 'duty' is the basic moral category and that the duty is independent of the consequences. An action is right if it has certain characteristics or is of a certain kind and wrong if it has other characteristics or is of another kind'.

This approach has more of a religious undertone. The ethical code of conduct has been dictated by the Holy Scriptures. The wrongs and rights have been defined by the word of God. This gives the concept of ethics a fixed perception. Since the word of God is considered as permanent and unchangeable, so then is the concept of ethics.

Holy Scriptures like those of the Bible, the Holy Quran, Bhagwad Gita and Guru Granth Sahib are considered to be the words of God and hence must be accepted in their entirety and without question. In similar thinking, though based upon rationality, rather than religious command, Emmanuel Kant, an eighteenth century German philosopher suggested morality as universally binding on all rational minds.

According to him, 'Act as if the maxim of thy action were to become by thy will a universal law of nature.' This mode of thinking asks whether the rationale for your action is suitable to become a universal law or principle for everyone to follow. For example, 'not breaking a promise' would be a good principle for everyone to follow. This means that morality would be considered unconditional and applicable to all people at all times and in all cases.

This approach suggests that moral judgments be made on the determination of intrinsic good or evil in an act which should be self evident. For example, the Ten Commandments would be considered as one of the guidelines to determine what is intrinsically good and what is intrinsically evil.

3. Emotive Approach: This approach is proposed by A.J. Ayer. He suggests that morals and ethics are just the personal viewpoints and 'moral judgements are meaningless expressions of emotions.' The concept of morality is personal in nature and only reflects a person's emotions.

This means that if a person feels good about an act, then in his view, it is a moral act. For example, using loopholes to cheat on income tax may be immoral from societal point of view, but the person filing the income tax returns sees nothing wrong with it.

Similarly, not joining the army in time of war may be unethical and unpatriotic from the point of view of the society and the country, but the person concerned may consider war as immoral in itself. According to this approach, the whole idea about morality hinges on the personal view point.

An extension of Emotive theory puts focus an the integrity of the person. While the person is looking for his own 'long term' benefit, he must have a 'virtue ethics perspective' which primarily considers the person's character, motivations and intentions. Character, motivations and intentions must be consistent with the principles accepted by society as ethical. The advantage of this approach is that it allows the ethical decision maker to rely on relevant community standards, 'without going through the complex process of trying to decide what is right in every situation using deontological or teleological approaches.'

4. Moral-rights Approach: This approach views behaviour as respecting and protecting fundamental human rights, equal treatment under law and so on. Some of these rights are set forth in documents such as Bill of Rights in America and U.N. Declaration of Human Rights. From ethical point of view, people expect that their health and safety is not endangered by unsafe products.

They have a right not to be intentionally deceived on matters which should be truthfully disclosed to them. Citizens have a fundamental right to privacy and violation of such privacy would not be morally justifiable. Individuals have the right to object and reject directives that violate their moral or religious beliefs. For example, Sikhs are allowed to wear turbans instead of putting on a hat as required by Royal Canadian Police, because of their religious beliefs.

The main drawbacks of business ethics approaches are that they can reduce a company's ability to maximise profit.

For example, having factories in developing countries can reduce costs. This is because companies can have practices in place, such as child labour and low wages, which help to maximise profit. But although these practices are legal in those countries, they're also incredibly unethical and will obviously never be tolerated by a company following ethical practices.

Improvements in working conditions, such as providing workers with living wage and having proper health and safety standards in place, are ethical but raises the amount it costs to run these factories. This, in turn, reduces profit which might not be an issue for large companies who can afford to allocate costs. But it can be an issue for small businesses, especially if they're evolving.

Developing, implementing and maintaining business ethics can be time consuming, particularly if a company is looking to become more ethical when they've previously followed unethical practices. Ethical practices also need to be continuously updated according to changes in laws and regulations, especially as a company grows.

Companies can streamline the process by hiring an ethics officer but this adds to the costs needed for business ethics.

Q. 2. What do you mean by ethical dilemma? Discuss various theories to overcome from ethical dilemmas.

Ans. Ref.: See Chapter-3, Page No. 26, 'Concept of Ethical Dilemmas' and Page No. 29, 'Resolving Ethical Dilemmas'.

Q. 3. Describe different business strategies inculcated for corporate social responsibility.

Ans. Ref.: See Chapter-6, Page No. 64, Q. No. 2.

Q. 4. Explain different models of corporate social responsibility operating in India.

Ans. Ref.: See Chapter-9, Page No. 96, 'Models of CSR in India'.

Q. 5. Discuss the guidelines on corporate social responsibility for public sector enterprises.

Ans. Ref.: See Chapter-11, Page No. 117, 'Corporate Social Responsibility of PSUs in India' and Page No. 120, Q. No. 1.

Q. 6. Describe different points of the format for the annual report on CSR activities as per Companies Act, 2013.

Ans. Ref.: See Chapter-12, Page No. 128, 'Different Reporting Tools and Techniques' and 'CSR Reporting Under the Companies Act, 2013'.

BUSINESS ETHICS AND CSR

BLOCK-1 : ETHICS AND BUSINESS

Business Ethics: An Overview

1

INTRODUCTION

Business ethics carries significant influence in the corporate world. Not only does it change how businesses operate on a day-to-day basis, but it also influences legislation around corporate regulation. In this chapter we will find out what business ethics is, why it is important, and how you can spot ethical and unethical behaviors in the workplace. We will also learn that Business ethics is the study of how a business should act in the face of ethical dilemmas and controversial situations. This can include a number of different situations, including how a business is governed, how stocks are traded, a business' role in social issues, and more.

CHAPTER AT A GLANCE

WHAT IS ETHICS?

The English word ethics is derived from the Ancient Greek word çthikós, meaning "relating to one's character", which itself comes from the root word êthos meaning "character, moral nature". This word was transferred into Latin as *ethica* and then into French as *éthique*, from which it was transferred into English.

Rushworth Kidder states that "standard definitions of ethics have typically included such phrases as 'the science of the ideal human character' or 'the science of moral duty'". Richard William Paul and Linda Elder define ethics as "a set of concepts and principles that guide us in determining what behaviour helps or harms sentient creatures". The Cambridge Dictionary of Philosophy states that the word "ethics" is "commonly used interchangeably with 'morality' ... and sometimes it is used more narrowly to mean the moral principles of a particular tradition, group or individual." Paul and

Elder state that most people confuse ethics with behaving in accordance with social conventions, religious beliefs, the law, and do not treat ethics as a stand-alone concept.

The word ethics in English refers to several things. It can refer to philosophical ethics or moral philosophy – a project that attempts to use reason to answer various kinds of ethical questions. As the English moral philosopher Bernard Williams writes, attempting to explain moral philosophy: "What makes an inquiry a philosophical one is reflective generality and a style of argument that claims to be rationally persuasive." Williams describes the content of this area of inquiry as addressing the very broad question, "how one should live". Ethics can also refer to a common human ability to think about ethical problems that is not particular to philosophy. As bioethicist Larry Churchill has written: "Ethics, understood as the capacity to think critically about moral values and direct our actions in terms of such values, is a generic human capacity."

UNDERSTANDING BUSINESS ETHICS

Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities. The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can choose to follow to gain public approval.

Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects. Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities. The law

usually sets the tone for business ethics, providing a basic guideline that businesses can choose to follow to gain public approval.

Business ethics ensure that a certain basic level of trust exists between consumers and various forms of market participants with businesses. For example, a portfolio manager must give the same consideration to the portfolios of family members and small individual investors. These kinds of practices ensure the public receives fair treatment.

The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility. The increased focus on "social issues" was a hallmark of the decade.

Since that time period, the concept of business ethics has evolved. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally *versus* maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.

Examples of Business Ethics

Here are a few examples of business ethics at work as corporations attempt to balance marketing and social responsibility. For example, Company XYZ sells cereals with all-natural ingredients. The marketing department wants to use the all-natural ingredients as a selling point, but it must temper enthusiasm for the product versus the laws that govern labeling practices.

Some competitors' advertisements tout high-fiber cereals that have the potential to reduce the risk of some types of cancer. The cereal company in question wants to gain more market share, but the marketing department cannot make dubious health claims on cereal boxes without the risk of litigation and fines. Even though competitors with larger market shares of the cereal industry use shady labeling practices, that doesn't mean every manufacturer should engage in unethical behaviour.

For another example, consider the matter of quality control for a company that manufactures electronic components for computer servers. These components must ship on time, or the manufacturer of the parts risks losing a lucrative contract. The quality-control department discovers a possible defect, and every component in one shipment faces checks.

Unfortunately, the checks may take too long, and the window for on-time shipping could pass, which could delay the customer's product release. The quality-control department can ship the parts, hoping that not all of them are defective, or delay the shipment and test everything. If the parts are defective, the company that buys the components might face a firestorm of consumer backlash, which may lead the customer to seek a more reliable supplier.

FEATURES OF BUSINESS ETHICS

Following are the features of business ethics:

Maintains Legality of Business: Business ethics ensure that business does not involve in any illegal activities. Ethics in business clearly defines the rules and principles that business needs to adopt in its code of conduct. These ethics avoid the adoption of unfair trade activities like adulteration, black marketing, frauds and cheating in the product, improper weights and measures, etc. This all helps in maintaining the legality of the business.

Reduce Risk and Cost: Ethics in business helps in improving the productivity and overall efficiency of the organisation. These ethics bring self-discipline within the organisation and aims at reducing the risk and expenses. All the people working in an organisation are strictly required to follow these ethics and are imposed to a penalty in case of any failure. Employees are required to strictly required to focus on their defined roles for achieving higher efficiency.

Providing Quality Products: Quality products are a must for keeping the customers happy and satisfied. Ethics in business defines certain standards for the production of better products for customers. Businesses are required to use better technology and resources for manufacturing their products. They should not comprise with product quality and should meet the standards level set by these ethics.

Healthy Competition: Unhealthy competition in the market makes the condition worse for the existence of the small business. Every business should adopt fair market practices for healthy competition in the market. They should cooperate with their business partners and other business organisation existing in the market. Ethics in business focuses on that any business organisation does not aim at creating its monopoly in the market by exploiting other ones existing in the market.

Profit Making: Business ethics are not against the profit earning objective of business. The aims that business should not earn profit by unfair means. Businessmen should remain honest and not cheat its customers, investors and employees. Involvement in any fraudulent activities for raising profit should be avoided.

Good Employer-Employee Relations: Implementation of ethics in business makes the employer and employee relations better. These ethics ensure that business should not operate for its own growth only but also work for the welfare of its employees. All employees should be provided better and timely wages and salaries, proper working conditions and various other amenities. It helps in developing better relations and understanding among employer and employees.

Long Term Growth: Ethics in business focuses on the survival of business organisations for long term. Business cannot exist for long term if any of its operations leads to exploitation of its stakeholders. These ethics ensure that business works for the welfare of all its stakeholders and tries to achieve their support. With the support of all its stakeholders business can easily touch the height of great success and can continue its operations for the long-term.

WHY IS BUSINESS ETHICS IMPORTANT?

Business ethics are important for a variety of reasons. First and foremost, it keeps the business working within the boundaries of the law, ensuring that they aren't committing crimes against their employees, customers, consumers at large, or other parties. However, the business also has a number of other advantages that will help them succeed if they are aware of business ethics.

Businesses can also build trust between the business and consumers. If consumers feel that a business can be trusted, they will be more likely to choose that business over its competitors. Some businesses choose to use certain aspects of business ethics as a marketing tool, particularly if they decide to highlight a popular social issue. Leveraging business ethics wisely can result in increased brand equity overall.

Being an ethical business is also highly appealing to investors and shareholders. They will be more likely to sink money into the company, as following standard ethical business practices and leveraging them properly can be a path to success for many businesses.

Following business ethics can also be beneficial for the business' employees and operations. Attracting top talent is significantly easier for ethical businesses. Employees not only appreciate a socially aware employer, but will also perceive them as the kind of business that will act in the best interest of their employees. This produces more dedicated employees and can also reduce recruitment costs.

TYPES OF BUSINESS ETHICS

Business ethics as a field of study is incredibly diverse, but many concepts can be divided into a few basic principles. Every business should strive to follow these guidelines in the pursuit of success.

Trustworthiness: Achieving trustworthiness typically involves being transparent and honest in all actions and communications. Being trustworthy can have a positive impact both internally and externally. Consumers appreciate openness, as it provides them with insight into how a business operates and conceptualizes the work that they do. Employees also appreciate this quality in a business that they work for.

Respect: Showing respect for employees and customers involves following through on all promises – and providing sincere apologies and appropriate compensation if anything falls through. Showing a lack of respect will deter customers from engaging with a business and lower a business' reputation. It will also do significant damage to employee morale and increase turnover.

Fairness: Treating customers and employees with a sense of fairness and justice is a key type of ethics. Manipulative behaviours aren't just unethical, but they are also unhelpful – and the top priority of any business should be to be helpful to its customers and employees. It is also important to treat all people equally.

Caring: Businesses, at the end of the day, are composed of human beings. There are human beings that consumer goods or services from the business, and then there are human beings that work to produce those goods or services. Being open to their struggles and coming to the table with solutions will show empathy – a valuable tool for any business to utilize. Showing a sense of caring and keeping the lines of communication is not just the ethical thing to do, but can also boost internal and external perceptions of the business.

Examples of Ethical Behaviour in the Workplace

While understanding the basic principles of business ethics is important, it is arguably more important to understand how these ideas apply to day-

to-day business operations. Here are some examples of how ethical behaviours can be practically applied.

Putting Customer Needs First: Companies that build their workplace culture around putting customer needs first and hiring people who engage in this behavior are participating in ethical behaviours. For example, if a customer comes into a store looking for a product that meets very specific needs, it's important to provide them the best product for the situation described instead of upselling them or encouraging them to buy a product that won't meet their needs. However, it is important to ensure that the "customer first" attitude does not unintentionally result in the unethical treatment of employees – such as encouraging them to work more overtime than allowed, forcing them to endure abuse from customers with no safe way to escape the situation, and more.

Being Transparent: Transparency and clear communication is paramount when it comes to ethical workplace behaviors. Employees and consumers alike should never be lied to or told untruths, as this breaks trust within the business. For example, when faced with a public relations crisis, companies should call a meeting and address the problem directly with their employees. It's important to truthfully describe the situation as it unfolded, present solutions, and accept criticism humbly.

Prioritizing Workplace Diversity: Part of being fair is providing everyone with an equal opportunity to be employed at the company. While there is much political debate around how to create workplace fairness, it is undeniable that providing equal opportunity for employment to every applicant is an ethical standard. For example, if someone notices that management tends to hire the same type of person, they may suggest getting employees more involved in the hiring process. This will introduce different perspectives to the hiring process and increase the possibility that different kinds of applicants will be selected for a position.

Respecting Customer Information: Many businesses collect the personal information of their customers, whether it's payment information, health information, or similar. One of the priorities for any business should be securing and protecting this information. For example, a hospital may create and enforce aggressive policies around staff sharing patient information on social media. Having an employee share this kind of information on their personal accounts is not only disrespectful of the patient's privacy, but could also put the hospital at risk of violating HIPAA regulations.

Providing Resources for Reporting Unethical Behaviour: If an employee notices unethical behaviour in the workplace, they should have an outlet to report these behaviors. The business is responsible for putting this infrastructure in place and designing it in a way that insulates the employee from harm. For example, a research university should have a neutral office of compliance that is organizationally detached from the research arm of the institution. This provides a neutral space where academics can report unethical studies or harmful practices without fear of workplace repercussions.

Examples of Unethical Behaviour in the Workplace

Just as it is important to understand how to practically apply ethical behaviour, it is equally important to understand what qualifies as unethical behaviour. Here are some examples of what unethical situations can look like in the workplace.

Taking Sides in an Employee Argument: It is not uncommon for conflicts to arise between employees in the workplace. Ethically, it is the job of company leadership and management to remain impartial during these conflicts. For example, if two of a manager's employees are in conflict, it is important for the manager to remain as neutral as possible. When a manager gives preference to a favorite or senior employee or provides a solution that only works in favor of one party, they are participating in unethical behaviour. They must allow both employees to speak their piece and then come to a solution that works best for both parties, as well as the business itself.

Lying: Lying to your employees or customers is the biggest way to break trust. Trust is the best source of dedication and loyalty that any business has. Once that trust is broken, it is extremely difficult to get it back. For example, if a company has a high-performing employee who is asking for a promotion, they may say that there is no room in the budget for a promotion this year. A few months later, another employee may receive a promotion. Telling obvious lies isn't just unethical – it will drive people away from your business.

Misusing Company Time: This is a common ethical dilemma that many businesses face. Many employees misuse company time in a variety of ways,