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Content

**BUSINESS ETHICS AND CSR**

Question Paper—June-2023 (Solved) .....	1-2
Sample Question Paper–1 (Solved) .....	1
Sample Question Paper–2 (Solved) .....	1
Sample Question Paper–3 (Solved) .....	1
Sample Question Paper–4 (Solved) .....	1

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<i>S.No.</i>	<i>Chapterwise Reference Book</i>	<i>Page</i>
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**BLOCK-1 : ETHICS AND BUSINESS**

1. Business Ethics: An Overview .....	1
2. Concepts and Theories of Business Ethics .....	13
3. Ethical Dilemmas .....	26
4. Ethics in Business .....	37

**BLOCK-2 : EVOLUTION AND CONCEPT OF CSR**

5. CSR : An Overview .....	51
6. Business Strategy in CSR.....	60
7. CSR in Global Context .....	71
8. Business Ethics and CSR : Linkages.....	84

**BLOCK-3 : CORPORATE SOCIAL RESPONSIBILITY IN INDIA**

9. CSR in Indian Context.....	95
10. CSR Legislation and Policy Guidelines .....	105
11. CSR in PSUs .....	116

**BLOCK-4 : CSR IMPLEMENTATION AND SUSTAINABILITY**

12. CSR Reporting Process and Auditing .....	127
13. Roles and Responsibilities of CSR Department .....	134
14. CSR and Sustainable Development.....	147



**Sample Preview  
of the  
Solved  
Sample Question  
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# QUESTION PAPER

June – 2023

(Solved)

## BUSINESS ETHICS AND CSR

M.M.P.C.-20

Time: 3 Hours ]

[ Maximum Marks: 100

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

**Q. 1. Explain the relevance of business ethics in today's world. How is Business Ethics different from Law? Discuss.**

**Ans. Ref.:** See Chapter-1, Page No. 7, Q. No. 4.

**Also Add:** Ethics is not limited to everything mentioned in the form of legal codes and is made legally mandatory. It is impossible to lay down the dos and don'ts in the form of written Law. Therefore, it is not rare to see some landmark judgments in the courts of Law invoking the spirit of the Law to justify their decisions. The Law is, at best, a common minimum acceptable standard in any civilized society. However, some moral and ethical questions are not necessarily covered by the Law. For instance, no legal system makes it mandatory for grown-up children to be loyal and faithful to their parents in their old age. Similarly, no law states that couples should be loyal to each other. Further, the Law covers many issues meant for regulatory purposes and ensuring civic order in any society. Such legal mandates need not necessarily have ethical implications.

**Q. 2. What is an ethical navigation wheel? Explain the six elements in the navigation wheel.**

**Ans.** Scholarship in business ethics has not confined itself to dealing with the challenges of ethical dilemmas. The two Norwegian scholars, Kvalnes and Ovarenget, have advanced a six-step ethical navigation wheel to overcome ethical dilemmas. The six elements in the navigation wheel are:

**Law (Is it Legal):** The first element in the Ethical Navigation Wheel is to determine whether the proposed managerial action is in compliance with the law. Even if a decision may not be the most preferred course of action, managers have an obligation to fulfill the legal requirements and ensure that their actions do not violate any laws or regulations.

**Identity (Mapping with Values):** Different professions and industries have their own set of values

and ethical expectations. Managers need to align their decision-making with the values of their industry. For example, finance professionals are expected to be objective and transparent, while health professionals prioritize the ethics of care. Aligning decisions with industry-specific values helps maintain consistency and credibility.

**Morality (Is it Right?):** The Ethical Navigation Wheel prompts managers to question whether their decisions align with their personal sense of morality. Morality is influenced by socialization patterns and cultural norms, but there is usually a basic consensus within a particular ecosystem on what is considered right and wrong. Managers should reflect on their moral compass to ensure ethical decision-making.

**Reputation (Impact on Goodwill):** Organizations are acutely aware of their reputation and public image. In the age of social media, news travels rapidly, and stakeholders can significantly impact a firm's reputation. Managers must consider the potential impact of their decisions on the organization's goodwill and take stakeholder management into account.

**Economy (Impact on Firm's Profits):** Ethical dilemmas may sometimes involve a choice between the corporation's profits and optimal ethical outcomes. Balancing financial interests with ethical considerations is a challenging aspect of managerial decision-making.

**Ethics (Challenge of Justifying):** To justify ethical choices, the Ethical Navigation Wheel suggests using the principles of equality and publicity. The principle of equality ensures that similar cases are treated equally unless morally relevant differences exist. For example, understanding the motives behind a gift can distinguish it from a bribe. The principle of publicity encourages transparency and accountability, as actions that withstand public scrutiny are more likely to be ethical.

**Q. 3. Explain how the stakeholders have emerged as strong drivers of Corporate Social Responsibility (CSR).**

**Ans. Ref.:** See Chapter-5, Page No. 57, 'Stakeholder's' and Chapter-6, Page No. 70, 'Stakeholder Engagement'.

**Also Add:** The various advantages granted to various stakeholders are explained below:

- The Standard of living gets better with the introduction of more amenities.
- Companies engage in large-scale capacity building due to which the society becomes more prosperous and wealthy.
- Creates a more balanced world and healthier environmental systems.
- Ecosystems become healthier due to balancing efforts of the corporates.
- Management of waste is improved.
- Cleaner and greener environment is created.
- Advantages to corporates.
- Creates greater societal acceptance and respect.
- Helps the company to grow fiscally and makes it more competitive.
- Helps the company to interact with various stakeholders and helps them understand their needs.
- Employees and their family feel proud to be associated with a balanced corporate organization.

**Q. 4. Explain the dominant forms of social activism and Corporate Social Responsibility.**

**Ans.** CSR and social activism are two sides of the same coin. Social activism in business has taken numerous forms. Some of the dominant forms of such activism are: **Consumer activism:** Consumer activism is an idea in which a group of people lobby to encourage what they as consumers feel is appropriate behaviour for the business enterprises. It may be related to the nature of the product, how it is manufactured and sold etc. moreover, today's consumer is actively engaged in unearthing any other number of factors that might directly or indirectly affect the relations between the consumer and the producer.

**CSO activism:** Another form of social activism that directly affects business today is the organized pressure emerging from numerous civil society organizations (CSOs) around the world. It is regarded as the 'Third Force' of the society after the government and CSR in Global Context business. The CSOs have

worked both closely and at times against the businesses so as to draw the attention of the issues concerning the public. Today some of the biggest economies are multinational companies not independent nations. It is all possible only for these businesses to work with the CSOs. Therefore, many of the global business giants are coming up to forcefully defend the civil or public space.

**Shareholder activism:** Shareholder activism is an important part of global business today. It is an ideal way to influence the corporation's behaviour by exercising the rights of the shareholder. It must be said that these shareholders become partial owners of the business through their investment. These large group of institutional investors are termed as 'Universal Owner' by corporate governance activist Robert Monks. Today, the shareholders have a big say both in internal and external policy making of the business.

**Employee activism:** Employee activism refers to collective or individual actions of employees who raise their voices for or against the employer. Such activists adopt various methods such as social media campaigns, walk-outs, strikes, mobilise co-workers through unions to generate support and make their actions visible. In this entire process, mediaprint, electronic and lastly, the social media can certainly play a robust role to highlight the issues and bring it to the notice of the general public. Frequently, this brings attention to aspects of the employee experience that are either harmful or unjust to them.

**Q. 5. Discuss the different phases of development of CSR in India. Briefly explain the models of CSR operating in India.**

**Ans. Ref.:** See Chapter-9, Page No. 98, Q. No. 2 and Page No. 99, Q. No. 3.

**Q. 6. Discuss the applicability of CSR provisions and the activities listed under Schedule VII.**

**Ans. Ref.:** See Chapter-10, Page No. 105, 'CSR Legislations in India'.

**Q. 7. What are the global guidelines to promote CSR practice? Discuss.**

**Ans. Ref.:** See Chapter-10, Page No. 108, 'CSR Committee'.

**Q. 8. What is the process of CSR Reporting? Discuss the different reporting tools and techniques.**

**Ans. Ref.:** See Chapter-12, Page No. 127, 'Process of CSR Reporting' and Page No. 128, 'Different Reporting Tools and Techniques'.



# Sample Preview of The Chapter

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# BUSINESS ETHICS AND CSR

## BLOCK-1 : ETHICS AND BUSINESS

### Business Ethics: An Overview



#### 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 *ēthikós*, meaning “relating to one’s character”, which itself comes from the root word *ēthos* 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 compromise 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 aim 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,