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# MCO-24

## Business Ethics & CSR

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**TUTOR MARKED ASSIGNMENT**

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<b>COURSE CODE</b>	:	<b>MCO-024</b>
<b>COURSE TITLE</b>	:	<b>Business Ethics and CSR</b>
<b>ASSIGNMENT CODE</b>	:	<b>MCO-024/TMA/2024-2025</b>
<b>COVERAGE</b>	:	<b>ALL BLOCKS</b>

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**Maximum Marks: 100**

**Attempt all the questions:**

1. Business ethics is an exymoron. Justify. (20)
2. How has economic globalization redefined the relationship between government and business? Relate your viewpoints with the changes in the Government-Business interface in the Indian context. (20)
3. a) Examine the role of values in the CSR strategy of business. (10+10)  
b) Explore the relation between corporation, its stakeholders and strategies adopted for better relation.
4. a) Draw out the benefits of companies with ethical code of conduct and CSR. (10+10)  
b) Why responsibility to its stakeholders is the fundamental principle of business ethics and CSR.
5. What are the five areas in which the CSR disclosures have been categorized as per the companies Act, 2013? (20)

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# M.C.O.-24

## Business Ethics and CSR

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**Attempt all the questions:**

**Q. 1. Business ethics is an oxymoron. Justify.**

**Ans.** The nature and concept of Ethics, we can say that Business Ethics is nothing but the application of Ethics in business. Business Ethics proves that businesses can be, and have been, ethical and still make profits. Business Ethics was thought of as being a contradiction of terms. Thankfully, not any more. Today, more and more interest is being given to the application of ethical practices in business dealings and the ethical implications of business.

Human beings have been endowed with the freedom of choice and the means of free will. He can distinguish between good and evil, right and wrong, just and proper. He can distinguish between the end he wishes to pursue and the means to gain that end.

Now, what is true for human beings is also true for business, because business are carried on by human beings only, and business organisations are nothing but formal structures for human beings to carry on their businesses. Moreover, businesses are thought of as being living, growing entities. Thus, businesses also have choices—a choice to maximise their profits and a choice to do good for the society in which they live and operate.

However, at most times, profit maximisation and discharging of social responsibilities at the maximum limit, cannot be carried on simultaneously. One is bound to affect the other. For example, Concern for Task (Productivity) and Concern for Human Beings (workers) are bound to pull each other in opposite directions. It is difficult, if not impossible, to maximise both together.

A conflict arises in trying to achieve both simultaneously. Hence, many managerial choices represent Managerial Dilemmas, between the profit consideration (commercial concern) and the social consideration (welfare concern) of the organisation. Many managerial decisions have ethical implications and these decisions give rise to Managerial Dilemmas.

For example, ruining occupations of age-old inhabitants in a particular locality and their ethical way of life, by using advanced technology, is an ethical dilemma. Technological advancements have to come, have to be used; however, what to do with the people whose life and earnings are affected by the utilisation of advanced technology, is a question which is difficult to answer.

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Recently an award-winning regional language film of India, depicted the plight of an aged boatman whose occupation was to transport people and goods across the local river, as there was no bridge over the river. However, his occupation gets threatened when a bridge is built over the river.

This does not mean that technology advancement must not be utilised or that modern methods should not be welcomed. Certainly, they should. Science and technology should, by all means, be used to uplift and make better the lives of human beings all over the world, and specially in such backward regions as this boatman lived.

However, consideration should also be given to see whether alternative means of arrangements can be made so that people are not unduly disturbed or that their trauma and upheaval is kept at a minimum. In case of the boatman, an ethical and effective solution lies in providing him with alternative employment on the bridge itself-as a security man, toll tax collector, etc. Similarly, when Mergers take place between companies, or Acquisition of one company by a bigger company, where Job positions are duplicated, instead of employees losing their jobs for no fault of their, ethical solutions lies in Job Reassignment or Retraining for alternative Job Assignments.

A business or company is considered to be ethical only if it tries to reach a trade-off between perusing its economic objectives and its social obligations, i.e., between its obligations to the society where it exists and operates; its obligations to its people due to whom it can even think of pursuing economic goals; to its environment, from whom it takes so much without it demanding anything back in return; and the like.

What are the obligations of a business, is open to interpretations. The list of obligations that a company must perform is long and complex and hence, are costly to the company; yet they must be discharged, if a company wants to survive and grow in the long run and is not satisfied in making profits only in the short run. While discharging its obligations to the society, the company not only fulfils its own duties, but also paves the way for a stronger and more ethical foundation.

**Q. 2. How has economic globalization redefined the relationship between government and business? Relate your viewpoints with the changes in the Government-Business interface in the Indian context.**

**Ans.** Economic globalization refers to the increasing integration and interdependence of national economies through the free flow of goods, services, capital, and technology across borders. It has led to profound changes in how governments and businesses interact, creating a more complex, interlinked global economic system. As countries liberalize their economies, the traditional roles and relationships between governments and businesses undergo transformation, affecting policy-making, regulatory frameworks, and economic strategies.

The relationship between the Indian government and businesses has undergone significant transformation since the early 1990s, when India embarked on economic liberalization. The adoption of globalization and economic reforms has redefined this interface in the following ways:

**Economic Reforms and Liberalization (1991 Onwards):** The economic reforms of 1991 marked a watershed moment in redefining the relationship between the Indian government and businesses. The reforms aimed at liberalizing the Indian economy through:

**Reduction in Industrial Licensing:** Dismantling the License Raj system to reduce bureaucratic hurdles for businesses.

**Reduction in Tariffs and Quotas:** Lowering trade barriers to facilitate international trade and competition.

**Privatization and Disinvestment:** The government began to disinvest in Public Sector Units (PSUs) and opened up various sectors to private participation.

**Encouragement of Foreign Direct Investment (FDI):** The Indian government actively sought to attract FDI by allowing foreign participation in several sectors and easing restrictions on ownership and investment.

Policies such as the Make in India initiative encourage international companies to set up manufacturing plants in India, creating jobs and promoting technology transfer.

**Public-Private Partnerships and Infrastructure Development:** The Indian government has increasingly engaged in Public-Private Partnerships (PPPs) for the development of infrastructure projects such as highways, airports, and metro systems. Notable examples include the Delhi Metro Rail Corporation (DMRC) and the GMR Group's involvement in airport modernization projects.

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**Ease of Doing Business Reforms:** The Indian government has undertaken various reforms to improve the Ease of Doing Business ranking, such as simplifying business registration processes, reducing the number of licenses and permits required, and digitizing government services. The Goods and Services Tax (GST) implementation in 2017 was a major reform aimed at simplifying the tax structure and creating a single national market, facilitating smoother business operations across states.

Economic globalization has fundamentally redefined the relationship between governments and businesses by shifting the government's role from a controller to a facilitator, promoting cooperation, and encouraging private sector participation. In the Indian context, this redefinition is evident through the liberalization reforms, increased FDI, PPPs, deregulation, and the alignment of policies with global standards.

While this evolving relationship has fostered economic growth and integration with the global economy, it has also posed challenges such as managing the balance between regulation and liberalization, ensuring equitable development, and maintaining domestic competitiveness in a globalized world. The changes in the government-business interface in India reflect a proactive approach to harnessing the benefits of globalization while addressing its associated challenges.

**Q. 3. (a) Examine the role of values in the CSR strategy of business.**

**Ans.** Corporate Social Responsibility (CSR) is the way how a company manages its business processes so as to bring an overall positive impact on the society, a way in which the company brings a balance between its economic, social and environmental responsibilities in its working to address the expectations of the stakeholders. These help the company in being collectively responsible to owners, customers and the society. CSR is also called corporate citizenship and is very closely related to Business Ethics. All business organisations must be aware of the effect which they are having on the society including financial, social, and biological. When a company practices CSR, it reflects that it is such an organisation which takes deep interest in social matters and also makes efforts to improve the society and environment rather than in those areas which directly concern the organization like profit, and such a reputation attracts many new customers. With such a perception, CSR can be applied to Business Ethics.

India is the first country in the world which has made CSR mandatory in April 2014. Organisations can spend a part of its profits in areas such as education, poverty, gender equality and hunger, therefore, it is very important to study about CSR in India. Most of the definitions of CSR show the relationship among financial, natural and social angles and the impacts that is left by the activities of the organisation. The concept of CSR says that the goal of an organisation while taking business decisions should not merely be profit maximization or a higher market value of its shares, but it should also serve and protect the interests of other members of a society including workers, consumers and the society as a whole. It is due to the concept of social responsibility of business towards the society that the social accountability of business enterprises is considered to its stakeholders and society.

**(b) Explore the relation between corporation, its stakeholders and strategies adopted for better relation.**

**Ans.** The relationship between a corporation and its stakeholders is fundamental to the company's long-term success and sustainability. Stakeholders are individuals or groups that have an interest in or are affected by the activities, decisions, and outcomes of a business. These include shareholders, employees, customers, suppliers, the community, the government, and even the environment. The nature of these relationships influences how a corporation operates, makes strategic decisions, and defines its goals. A positive relationship with stakeholders can lead to improved brand reputation, increased loyalty, enhanced collaboration, and ultimately better financial performance.

**Strategies for Building Better Stakeholder Relationships:**

Corporations adopt various strategies to engage and build positive relationships with their stakeholders. These strategies differ based on the stakeholders' interests and the company's goals but typically involve clear communication, ethical practices, and mutual value creation.

**Transparency and Open Communication:** Regular and detailed financial reporting, shareholder meetings, and updates on company performance to build trust and maintain a positive relationship.

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**Return on Investment (ROI) Strategies:** Focusing on profitability, paying dividends, and maintaining stock price stability to meet investor expectations.

**Risk Management and Governance:** Strong corporate governance and risk management practices reassure investors of the company's stability and ethical conduct.

**Employee Engagement and Development Programs:** Offering training, career development, mentorship, and learning opportunities to build employee satisfaction and retention.

**Inclusive Work Culture and Benefits:** Promoting diversity, work-life balance, health benefits, and employee welfare programs.

**Employee Participation:** Involving employees in decision-making processes, recognizing their contributions, and providing platforms for feedback.

**Customer-Centric Innovation:** Developing products and services based on customer feedback and preferences.

**Personalized Marketing and Engagement:** Creating personalized experiences, leveraging data analytics to understand customer behaviour, and offering tailored solutions.

**Customer Support and Service:** Providing efficient, multi-channel customer support and proactively addressing customer

#### **Q. 4. (a) Draw out the benefits of companies with ethical code of conduct and CSR.**

**Ans.** Wetherill Associates, Inc. – a small, privately held supplier of electrical parts to the automotive market – has neither a conventional code of conduct nor a statement of values. Instead, WAI has a Quality Assurance Manual – a combination of philosophy text, conduct guide, technical manual, and company profile – that describes the company's commitment to honesty and its guiding principle of right action.

WAI doesn't have a corporate ethics officer who reports to top management, because at WAI, the company's corporate ethics officer is top management. Marie Bothe, WAI's chief executive officer, sees her main function as keeping the 350-employee company on the path of right action and looking for opportunities to help the community. She delegates the "technical" aspects of the business – marketing, finance, personnel, operations – to other members of the organisation.

Right action, the basis for all of WAI's decisions, is a well-developed approach that challenges most conventional management thinking. The company explicitly rejects the usual conceptual boundaries that separate morality and self-interest. Instead, they define right behavior as logically, expediently, and morally right. Managers teach employees to look at the needs of the customers, suppliers, and the community – in addition to those of the company and its employees – when making decisions.

WAI also has a unique approach to competition. One employee explains, "We are not 'in competition' with anybody. We just do what we have to do to serve the customer." Indeed, when occasionally unable to fill orders, WAI salespeople refer customers to competitors. Artificial incentives, such as sales contests, are never used to spur individual performance. Nor are sales results used in determining compensation. Instead, the focus is on teamwork and customer service. Managers tell all new recruits that absolute honesty, mutual courtesy, and respect are standard operating procedure.

Newcomers generally react positively to company philosophy, but not all are prepared for such a radical departure from the practices they have known elsewhere. Recalling her initial interview, one recruit described her response to being told that lying was not allowed, "What do you mean? No lying? I'm a buyer. I lie for a living!" Today she is persuaded that the policy makes sound business sense. WAI is known for informing suppliers of overshipments as well as undershipments and for scrupulous honesty in the sale of parts, even when deception cannot be readily detected.

Since its entry into the distribution business 13 years ago, WAI has seen its revenues climb steadily from just under \$1 million to nearly \$98 million in 1993, and this in an industry with little growth. Once seen as an upstart beset by naysayers and industry skeptics, WAI is now credited with entering and professionalizing an industry in which kickbacks, bribes, and "gratuities" were commonplace. Employees – equal numbers of men and women ranging in age from 17 to 92 – praise the work environment as both productive and supportive.

WAI's approach could be difficult to introduce in a larger, more traditional organisation. WAI is a small company founded by 34 people who shared a belief in right action; its ethical values were naturally built into the organization from the start. Those

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values are so deeply ingrained in the company's culture and operating systems that they have been largely self-sustaining. Still, the company has developed its own training program and takes special care to hire people willing to support right action. Ethics and job skills are considered equally important in determining an individual's competence and suitability for employment. For WAI, the challenge will be to sustain its vision as the company grows and taps into markets overseas.

At WAI, as at Martin Marietta and NovaCare, a management-led commitment to ethical values has contributed to competitiveness, positive work-force morale, as well as solid sustainable relationships with the company's key constituencies. In the end, creating a climate that encourages exemplary conduct may be the best way to discourage damaging misconduct. Only in such an environment do rogues really act alone.

Corporate Social Responsibility (CSR) is a self-regulating business model that helps a company be socially accountable – to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental. To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

**Benefits of CSR**

**1. Satisfied Employees:** Employees want to feel proud of the organization they work for. An employee with a positive attitude towards the company, is less likely to look for a job elsewhere. It is also likely that you will receive more job applications because people want to work for you.

More choice means a better workforce. Because of the high positive impact of CSR on employee wellbeing and motivation, the role of HR in managing CSR projects is significant.

**2. Satisfied Customers:** Research shows that a strong record of CSR improves customers' attitude towards the company. If a customer likes the company, he or she will buy more products or services and will be less willing to change to another brand.

**Relevant research:**

- IBM study 'Attaining Sustainable Growth through Corporate Social Responsibility': The majority of business executives believes that CSR activities are giving their firms competitive advantage, primarily due to favourable responses from consumers.
- Better Business Journey, UK Small Business Consortium: "88% of consumers said they were more likely to buy from a company that supports and engages in activities to improve society."

**3. Positive PR:** CSR provides the opportunity to share positive stories online and through traditional media. Companies no longer have to waste money on expensive advertising campaigns. Instead they generate free publicity and benefit from worth of mouth marketing.

**4. Costs reductions:** Yes, you read this correctly. A CSR program doesn't have to cost money. On the contrary. If conducted properly a company can reduce costs through CSR.

Companies reduce costs by:

- More efficient staff hire and retention
- Implementing energy savings programs
- Managing potential risks and liabilities more effectively
- Less investment in traditional advertising

**5. More business opportunities:** A CSR program requires an open, outside oriented approach. The business must be in a constant dialogue with customers, suppliers and other parties that affect the organization. Because of continuous interaction with other parties, your business will be the first to know about new business opportunities.

**6. Long term future for your business:** CSR is not something for the short term. It's all about achieving long term results and business continuity.

**(b) Why responsibility to its stakeholders is the fundamental principle of business ethics and CSR.**

**Ans. Stakeholder Theory:** According to this theory, the organization should protect the interests of the stakeholders and also must incorporate their suggestions. In this theory, the legitimate claims of the people who will be affected by the operations

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of a manufacturing plant of the company are listed. The theory states that, those whose lives are affected by any company, have a right to direct it. For example, when a manufacturing plant produces waste, the CSR theory would assign the production people to securely manage the waste but the stakeholders theorist would start talking to the affected people about business ethics, also insisting about their right to get clean air and water.

Business philosophy includes the mission and vision of the business, it is the driving force of a business and it explains why the business exists and determines the objectives of the business. On the other hand, the philosophy of business has a broader context which explains the reasons for all the businesses, not of a particular business. An ethical framework is needed for every discipline to exist which is provided by the philosophy underlying it. When a philosophy is applied to a discipline, it becomes applied philosophy. Therefore, the philosophy of business is an applied philosophy which means that its subject understanding of the moral and ethical guidelines of business as a subject of knowledge. Philosophy is concerned with knowledge, it clears the question about the role of the business and the ethical basis whether it is fulfilling its role or not.

**Corporate Responsibility includes:**

- Corporate Social Responsibility is the way how a Company manages its business processes so as to bring an overall positive impact on the society, a way in which the Company brings a balance between its economic, social and environmental responsibilities in its working to address the expectations of the stakeholders.
- Corporate Governance which is the combination of rules by which business is conducted, operated and controlled. It is the way the Company is governed, as per the desires of its stakeholders.
- Environmental accountability includes the responsibility for deterioration of the natural environment and the allocation of environmental costs to such activities which cause the environmental deterioration.

**Q. 5. What are the five areas in which the CSR disclosures have been categorized as per the Companies Act, 2013?**

**Ans.** The objective of the inclusion of CSR in the Act is an effort to supplement the efforts of the government of equitably delivering the benefits of growth and to engage the Corporate World with the country's development agenda.

**Section 135:** According to the Section 135 of the Companies Act, 2013:

- It is important for an organization to constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director if the company has an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of 5 crore INR and more.
- The CSR Committee will be responsible to prepare and suggest to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII and make suggestions about the amount of expenditure to be incurred on these activities and monitoring the Corporate social responsibility policy of the company on timely basis.

The Board of every company shall approve the Corporate Social Responsibility of the company and ensure that the activities are undertaken by the company. The Board also ensures that some percentage in the local areas and in case the company fails to do the same, the Board shall specify the reason for not doing the same. ■■

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