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CAIIB

Module-E Unit-6

Human Resources Management

CAIIB HRM Module E Unit 6- Business Ethics, Corporate Governance & Corporate Social Responsibility

Business Ethics

- **'Ethics'** are set of principles or standards of human conduct that govern the behaviour of individuals or organizations. It deals with morals and obligations and what is right and wrong.
- **"Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."** Business ethics are those principles, policies or philosophies that are concerned with moral judgment & good conduct as they are applicable to business situation.
- These are rules that business must accept and follow in its day to day operations for the welfare of society and all its stakeholders. These ethics helps the business in deciding what is right and what is wrong for the business taking into account its circumstances.

Characteristics of Business Ethics

- **Defines Code of Conduct:** Business ethics is the code of conduct which businessmen should follow while conducting their normal business activities. Ethics defines social, cultural, economic, legal and other limits of business and they should operate within these limits.
- **Protects Social Group:** Business follow and practices ethics therefore gives protection to all social groups. Therefore, business ethics provide protection to different social groups associated with business.
- **Instills Healthy Competition:** Every business should adopt fair market practices for healthy competition in the market. They should maintain healthy co-ordination and co-operation with their business partners and other business organisation existing in the market.
- **Reduces 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.
- **Monitor Business Malpractices:** Business ethics monitors and keeps a check on any malpractices in business. It avoids adoption of unfair trade activities like adulteration, black marketing, frauds and cheating in product, improper weights and measures etc. Controlling of all these malpractices by ethics helps in maintaining the legality of business.
- **Based on Moral and Social Values:** Business ethics is based on well-accepted moral/principal values. They include self-control, service to society and fair treatment to social groups and not to harm/exploit others.
- **Needs Willing Acceptance for Enforcement:** Ethics are voluntary in nature and are not enforceable by any law or statute or by force. These ethics must be adopted like self-discipline by businessmen at their own will and choice.

- **Ensures Healthy Employer-Employee Relations.** All employees should be provided better and timely wages and salaries, proper working conditions and various other amenities.
- **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.
- **Not against profit making:** Business Ethics is not against fair profit making. However, it is against profiteering by cheating and exploiting consumers, employees or investors.
- **Creates Good Image:** Business ethics has an important role in improving the goodwill of the business. Providing quality products at fair prices helps in serving and satisfying customers in a better way.
- **Needs Education and Guidance for its Implementation:** Businessman should be given proper education, guidance and training in order to motivate them to follow ethical business practices.

Difference between The Concepts of – 'Ethics', 'Morals' and 'Values'

Ethics vs Morals

S. No	Ethics	Morals
1.	Ethics is a Moral Philosophy as such, it is the combination of morals and reasoning. Hence it has a wider connotation.	Morals are mostly guided by Culture and has limited scope than the Ethics.
2.	Ethics lays faith in the free will of the individual, and gives enough room for the individual to deliberate upon different means to an end, while also providing a moral justification for the same.	Morality can limit the scope of human deliberation, in determining the goals and means towards the human ends.
3.	To be ethical, one should figure out what is right – by applying some principles and considering all the complexities involved.	To be moral, is all about adhering to what is described by society or religion.
4.	A person whose morality is reflected in his willingness to do the right thing – even if it is hard or dangerous – is ethical.	Whereas, a person who knows the difference between right and wrong and chooses right is moral.
5.	Ethics are moral values in action. Being ethical is an imperative because morality protects life.	Morals form part of the cultures which are to be ethical.
6.	To follow the ethical culture is a relatively harder path.	To practice morals is less difficult than imbibing ethical culture.
7.	Ethics are philosophical deliberations that come up with the moral justifications and principles that guide our moral values.	Morals is a set of beliefs and practices concerned with what is understood as good and evil.

Ethics vs Values

S. No	Ethics	Values
1.	Ethics is a generalized value system like avoiding discrimination in recruitment and adopting fair business practices.	Values are personal in nature like a brief in providing customer satisfaction and being a good paymaster.
2.	Business ethics can provide the general guidelines within which management can operate.	Values, however, offer alternatives to choose them. To illustrate, philanthropy as a business policy is optional.
3.	Ethics determine what is right or wrong.	Values judge as to what is desirable or undesirable.
4.	Ethics is all about reasoning as to how to do the right action.	Values are mostly guided by the belief system of the individual or organization.
5.	Ethics constrain and hold back the individuals.	Values motivate the individual to judge between good and bad.

Areas of Business Ethics

- **Personal Responsibility:** Each person who works for a business, whether on the executive level or the entry-level, will be expected to act with personal responsibility- honesty, diligence, punctuality, and willingness to perform excepted duties.
- **Corporate Responsibility:** Organisations have certain moral and ethical responsibilities and obligations towards all their stakeholders - for example, to conduct business fairly and to treat people with dignity and respect.
- **Social And Environmental Responsibility:** Organisations are the part of the society at large and as such they have a constructive role towards community, society and environmental safety. They will also adopt measures to reduce waste and promote a safe and healthy environment. Therefore, Corporate Social Responsibilities (CSR) is a common practice where businesses work towards environmental protection, social causes, and spreading awareness.
- **Technology Ethics:** With information technological explosion makes the organizations to widely using social media channels they need to evolve a fair and transparent social media policy and also to ensure strict enforcement of such policy. Technology ethics also include customer-privacy, personal information, and intellectual property fair practices.
- **Inter-personal and Organisational Loyalty:** Employees should be loyal to their co-workers, managers, and the company. These include mutual loyalties of a subordinate and superior and if the superior is just, fair and honest, the subordinates shall emulate them and make the organization as an ethical entity
- **Mutual Respect:** Respect is an important business ethic, both in the way the business treats its clients, customers and employees, and also in the way its employees treat one another.
- **Transparency & Trustworthiness:** Business organizations should nurture trustworthiness with its clients, customers and employees through honesty, transparency and reliability. Businesses should maintain transparency in business practices and financial reports.

Theories of Business Ethics

John Stuart Mill's Utilitarian Theory

- John Stuart Mill defines utilitarianism as a theory based on the principle that **"actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness."**
- Mill defines happiness as pleasure and the absence of pain. Utilitarianism theory argues that the right action for a particular occasion is the one that produces more utility than any other possible action. But it does not mean that the right action is the one that produces the most utility for the person who performs the action. On the contrary, John Mill advocated that an action is right if it produces the most utility for all the persons affected by the action.
- John Stuart Mill's utilitarian theory focuses on the quality of actions as propagated by the 'Deontological Theory' ie., duty-based and non-consequentialist.
- The thought process of **Deontological theory** is that ethical decisions are made based on the consequences of the action, which is why it is also sometimes called **consequentialism**. Due to the fact that this theory propagates greatest good and welfare of the people, this theory can also be called as **'Ethics of Welfare'.**

Merits:

- While assessing the usefulness of utilitarianism in the organizational context it should be understood that it provide standards for a policy action viz., if it promotes the welfare of all, more than any other alternative, then it is good.
- The theory provides an objective means of resolving conflicts of self interest with the action for common good.
- The theory provides a flexible, result-oriented approach to ethical or moral decision making.

De-merits:

- Measurement of utility is a difficult task as presently there are no means to measure it as, utility is a psychological concept and is highly subjective. It differs from person to person and time to time.
- Intractability to measurement that arises while dealing with certain benefits and costs is not possible. To illustrate, measurement of value of life or health is impossible.
- Lack of predictability of benefits and costs. If they cannot be predicted, then they cannot be measured properly.
- Lack of clarity in defining what constitutes 'benefit' and what constitute 'cost'. This lack of clarity creates problems especially with respect to social issues that are given different interpretations by different social or cultural groups.

Immanuel Kant's Deontological Theory

- The basic principle of this theory is that human beings should be treated with dignity and respect because they too have rights. In deontological ethics – people have a duty to respect other people's rights and treat them accordingly. When faced with an ethical situation, then, the process is simply one of identifying one's duty and making the appropriate decision.

- When we act only out of feeling, inclination or self-interest, our actions –although they may be otherwise identical with ones that spring from the sense of duty – have no true moral worth. Hence, this theory is also called as **'Ethics of Duty'.** He advocates that an action has moral worth only when it is done from a sense of duty.
- The core idea is that an action is right if and only when we will do it to become a universal law of conduct. This means that we must never perform an action unless we can consistently do that and it can be followed by everyone.

Merits

- Kantian theory of ethics has adequate relevance to a business organization and benefits in its decision making. This theory provides us firm rules to follow in moral decision making for certain issues, because the result of such actions does not depend on the circumstances or the performer.
- Kant gives more importance to the individuals. In other words, when developing a code of conduct, an individual should not use others to serve the own purpose or advantage.

Limitations

- There are no solutions provided in the theory on how to resolve conflicts that arise when there is no agreement about the principles involved in the decision
- It is not correct to assume that the implications of making a "right" choice will always have good consequences but at times it may yield bad consequences as well
- The theory is not clear as to what decisions should be made when duties conflict.

Aristotle's Virtue Theory

- Aristotle's virtue theory says that what matters in ethical behaviour is the integrity of an individual's character. This theory is based on the premise that different goals can only be achieved only if people possess self-love. It is argued that self-love is a precondition for reaching one's full human potential of having a sense of well-being and joy.
- This character based approach to morality assumes that we acquire virtue through practice. By practicing being honest, brave, just, generous, and so on, a person develops an honorable and moral character. He advocated that in order for one to be virtuous they must display **prudence, temperance, courage, and justice**; moreover, they have to display all four of them and not just one or two to be virtuous.
- The virtue theory also faces the same challenges as Kant's Deontological Ethics Theory when having conflicting virtues. If there is a virtue of loyalty to a client and honesty to the public, what happens when they conflict? To which one should a professional defer? These are some of the challenges even this theory faces.

Corpoate Governance

- **'Corporate Governance'** refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the Board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.
- **Corporate Governance** is essential to develop added value to the stakeholders. Corporate Governance **ensures transparency** which ensures **strong and balanced economic development**. This also ensures that the interests of all shareholders (irrespective of their stakes) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance encourages a **trustworthy, moral, as well as ethical environment.**

Strategies to Nurture 'Good' Corporate Governance

Organizations achieve 'good' Corporate Governance by ensuring the Board of Directors:

Follow the 4 Ps of Corporate Governance:

- **People** – People determine the purpose to work towards, develop the process to achieve it, and evaluate the performance outcomes.
- **Purpose** – Every piece of governance exists for a purpose, bringing the company closer to achieving its mission statement.
- **Process** – People achieve the company's purpose through its processes.
- **Performance** – performance is – we are going in the right direction or not, is there any gap between desired objectives and achieved objectives.

- **Adhere to the Basic Principles of 'Corporate Governance':** Accountability of Leadership, Participation by all who matters in Governance, Consensus-oriented, Transparency of Governance Policies, Responsive to all stakeholders etc.
- **Implement the Company's governance strategically and fairly.**
- **Balance the interests of the company's stakeholders**, which can include shareholders, senior management executives, the board of directors, customers, suppliers, and the community.

Best Practices For Improving Corporate Governance

- Recognizing that good governance is not just about compliance of laid down rules, regulations and code of conduct etc. but also to improve the performance of the organization through formatting strong strategies and business and operational policies.
- Building a robust Board of Directors. Board should encompass Directors with right qualification, expertise, competence, knowledge relevant to the field of

business and have strong ethics and integrity with diverse backgrounds and skill sets.

- Organization should evolve and put in place transparent, fair, clear and unambiguous patterns of role, responsibility and accountability or - the Board, Chairperson, CEO, Executive Officers and management personnel.
- Providing qualitative and factual information is the cornerstone for taking better decisions. Regular board agendas contain all the information/details that the Chairperson and the Director need to take appropriate decisions.
- Emphasizing on maintaining integrity and ethical dealings. To create and cultivate this culture, the organizations should evolve and adopt a conflict of interest policy, a whistleblower policy, a code of business conduct setting out the company's requirements and process to report and deal with and also to designate someone responsible for oversight and management of these policies and procedures.
- Recognizing that the governance of risk is the responsibility of the Board of Directors. Establishing a sound system of risk oversight and management and internal control is another fundamental role of the board. Effective risk management supports better decision making because it develops a deeper insight into the risk-reward trade-offs that all organizations encounter.

Ethical Issues in 'Corporate Governance'

- The quality of corporate governance is determined by the manner in which the top management especially the Board of Directors, allocates the financial resources of the company between themselves and employees, customers, government etc. Since these as the matters of money and finance, the basic requirements invariably expected are – **Trust, Honesty, Integrity, Ethical values, Transparency and Strict compliance of laid down laws, rules, regulations etc.**
- It is quite unfortunate that business environment especially in India is replete with unethical practices like bribery, corruption, insider trading etc. Government of India and the Indian Corporate sector to lay more emphasis on imbibing ethics and values in their business polices and operations. The ethical climate in any business organization largely depends on three factors viz.,
  - **The individual's sense of value**
  - **The social values accepted by the business and industry.**
  - **The System.** While the first two factors are relatively easy to achieve, the third one i.e., 'the system' is the most decisive factor where the corporate faces main challenge.

'Corporate Social Responsibility' (CSR)

- **World Business Council for Sustainable Development** defines **'Corporate Social Responsibility'** as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

- Corporate Social Responsibility (CSR) is a means through which a company incorporates **environmental, social and human development concerns** into its planning and actions to ensure that its operations are ethical and beneficial for society.

Advantages of 'Corporate Social Responsibility' (CSR)

- It improves financial performance of the concerned entity.
- It enhances brand image and reputation of the company
- It increases sales volumes and customer loyalty
- It enhances the ability of the company to attract and retain key talents.
- It enables reduced regulatory oversight.
- It instill a sense of creativity, innovation and learning new horizons of knowledge.
- It makes the Risk Management endeavours more robust
- It eases out the company's effort to access capital.
- It reduces the operating expenses considerably

'Carroll's CSR Pyramid' & Four Model Framework

- Carroll's CSR pyramid is a framework that explains how and why organizations should take social responsibility. The pyramid was developed by Carroll and highlights the four most important types of responsibility of organizations. These are:
- **Economic responsibility**
- **Legal responsibility**
- **Ethical responsibility**
- **Philanthropic responsibility.**

Mandated Provisions Under Indian Laws for 'Corporate Social Responsibility' (CSR)

- CSR in India has traditionally been seen as a philanthropic activity. However, with the introduction of **Section 135 in the Companies Act 2013**, India emerged as the first country to mandate and quantify the expenditure under the head **'Corporate Social Responsibility (CSR)'** activities.

- Schedule VII of the said Act places the community at the heart of all the activities. The Act advocates integrating CSR Activities into the core operations of a company.
- The Act requires **companies with a net worth of ₹500 crore or more, or turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more during the immediately preceding financial year, to spend 2 per cent of the average net profits of the immediately preceding three years on CSR activities**. It does also enumerate the activities that can be undertaken and the manner in which the companies can undertake CSR projects / programmes.