UNIT – VI: Managerial Ethics

Ethics and Business, Ethics of Marketing & advertising, Ethics of Finance & Accounting, Decision – making frameworks, Business and Social Responsibility, International Standards, Corporate Governance, Corporate Citizenship, Corporate Social Responsibility

ETHICS AND BUSINESS ETHICS

Meaning of Ethics:

The term 'ethics' defines the standards that bear on right and wrong issues of society. Business ethics is thus a set of professional standards, which emphasize principles of honesty and duty to the business and the general public. The other significant principles included in business ethics are:

- Fairness
- Integrity
- Commitment to agreements
- Broad-mindedness
- Considerateness
- Importance given to human esteem and self-respect
- Responsible citizenship
- Attempt to excel
- Accountability

These principles, if strictly pursued, lead to a decent business environment and create healthy relationships in the organization. However, deviations from these principles can occur due to the following factors:

- Ignorance and indifference to issues
- Selfishness
- Imperfect reasoning

BUSINESS DEFINITIONS

According to Peterson and Ploughman, 'Business may be defined as an activity in which different persons exchange something of value, whether goods or services for mutual gain or profit.'

According to Section 2(13) of the Indian Income Tax Act, 1961, business means, 'any trade, commerce or manufacture or any adventure in the nature of trade, commerce or manufacture'.

CHARACTERISTICS OF BUSINESS

Business means the creation of utilities. There are many features of business activities and, thus, the business.

The essential characteristics of business may be summarized as follows:

- **Exchange or sale:** A business includes the sale, purchase and exchange of goods and services.
- **Creation of utilities:** A business creates transfers and utilities of goods by making them available in proper form at the appropriate time and place.
- **Social institution:** A business deals with the people of society. All the persons engaged in the business, such as owners, customers, employees and other professionals, belong to the society. A business has to fulfil its social responsibilities towards each part of the community and has to follow the business ethics as well.
- **Profit motive:** Business activities are carried out to make profit. A nonprofitable business cannot continue to exist for long. Profits are essential for growth of a business.
- **Risk and uncertainty:** There are two types of risks in a business. The first type of risk is floods and thefts. The second type of risk is loss due to fall in demand and labour trouble. Uncertainty arises because of unpredictability of profit in a business. Profit is such an element which cannot be predicted in advance.
- **Customer satisfaction:** A business always tries to satisfy its customer with better quality and reasonable prices.

BUSINESS ETHICS

Business ethics has different meanings for different people, but generally it is to decide what is right or wrong in the business.

According to Wallace and Pekel, 'attention to business ethics is necessary during times of fundamental change as the moral values that were not taken seriously are strongly questioned at that time'.

Business ethics enables the leaders and employees to act at the time of crises and confusion in the business. Therefore, business ethics helps to deal with business ethical issues that are vague.

BENEFITS OF BUSINESS ETHICS

The various benefits of managing ethics in a business are as follows:

- Business ethics helps in improving society by establishing government agencies, unions, laws and regulations in the society.
- Business ethics helps an organization maintain ethical values during times of crisis. Business ethics programmes guide leaders about the right or wrong ways of dealing with complex dilemmas and how they should act during that time.
- Business ethics helps employees behave according to the ethical values that are preferred by the top management of an organization. An organization discovers many differences between the values that reflect in the actions of the employees and the values preferred. Employees experience a relationship that is strong between the values of the organization and their values. Ethical values induce teamwork and increase the efficiency of the employees.
- Ethics supports employee growth. When an employee pays attention to ethics, it induces confidence in the employee to deal with reality and face both good and bad circumstances. Bennett, in his article 'Unethical Behaviour, Stress Appear Linked', explained that the more an employee is emotionally healthy, the more ethical he is.
- Ethics have become legal instruments. These days, there are several lawsuits regarding personnel matters and the influence of the services of the organization on the investors and customers. Major ethical principles that are applied in the organization are the laws that are made by the government. A greater attention on ethical issues on the part of the government ensures high ethical procedures and policies in the workplace. An employee, for example, is subject to breach of contract on non-compliance of the terms and conditions of the contract.
- Business ethics helps to avoid criminal acts of 'omission' and it also helps in lowering the fines. Ethics helps in ascertaining the violation of ethical issues and helps in rectifying the violation that is committed by the organization. The guidelines set by an organization about ethical values helps to lower fines. An organization, for example, that has knowingly violated a contract is considered to have committed a criminal act and the organization is subject to penalty.
- Business ethics helps to identify and manage the values associated with quality management, strategic management and diversity management. For managing these values, ethical programmes record the values, develop policies and procedures and then provide training to the employees on these policies and procedures. These ethical

programmes manage certain values of quality management, such as reliability, performance, measurement and feedback. Similarly, these programmes also manage various strategic values, such as reducing cost and increasing market share.

- Business ethics helps in building a strong and positive public image of an organization. Ethical values enable an organization to increase their goodwill in the market. Those organizations that value their customers have a positive influence in the market. Ethical values are the milestones that enable the establishing of a successful and socially responsible business.
- Business ethics strengthens organizational culture. Ethical values improve relationships between an organization and its customers. They strengthen the organization by ensuring consistency in the standard and quality of the product.
- Business ethics makes sure that the right activities are performed in an organization.

NEED OR IMPORTANCE OF BUSINESS ETHICS

Stop business malpractices: Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of counterfeit (duplicate) and harmful products, illegal hoarding, etc. These business malpractices are harmful to consumers and the safety of society. Business ethics help to stop these malpractices and safeguard society. It creates a healthy business environment for everyone.

Improve customers' confidence: Business ethics are needed to improve the customers' confidence about the quality, utility, reliability, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical business rules or principles. They feel safe that such businessmen will not cheat them. Ethics binds businessmen to maintain trust by offering quality products and services to customers.

Survival of business: Business ethics are mandatory or compulsory for the survival of any business. The businessmen who do not follow it will only have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After realizing being cheated, the consumer will not buy goods or services from that businessman. He will also tell others not to buy from that businessman. So, this will defame his goodwill or image and provoke negative publicity in the market. This will result in the failure and even closure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow

appropriate code of conduct to survive in the competitive market. Hence, ethics is essential for the survival of business.

Safeguarding consumers' rights: The consumer has many rights such as the right to health and safety, right to be informed, right to choose, right to be heard, right to redress, right to be satisfied, etc. But many businessmen do not respect and protect these rights of their consumers. Business ethics are must to safeguard these basic rights of the consumers. A business who safeguards its consumers' rights, in fact, safeguards its own existence.

Protecting employees and shareholders: Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, customers, government, etc. It protects them from exploiting each other through unfair trade practices like cheatings or frauds. Ethics compels each entity participating in the business activity to properly execute its role by adhering the established code of conduct. Since everyone is disciplined and function appropriately, business grows well in the long run.

Develops good relations: Business ethics are important to develop good and friendly relations between business and society. This will result in a regular supply of good quality goods and services at low prices to the society. It will also result in good profits for the businesses thereby resulting in the growth of the economy. If the economy keeps growing, it ultimately improves the standard of living of the society.

Creates good image: Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticized by society. The society will always support those businessmen who follow the necessary code of conduct and avoids engaging in unscrupulous activities. If the business succeeds in creating and maintaining its goodwill in the society, it flourishes well even in the most competitive markets.

Smooth functioning: If the business follows all the business ethics, then the employees, shareholders, consumers, dealers, and suppliers will all be happy. So, they will give full cooperation to the business. This will result in the smooth functioning of business activities. So, the business will grow, expand and diversify easily and quickly. It will have more sales and eventually more profits. If even one entity participating in the business activities is unhappy and not fully satisfied then also the business will not function smoothly. The satisfaction of all involved parties is necessary for the smooth functioning of a business. Business ethics maintain this safe level of satisfaction and protects the business from being dysfunctional.

Consumer movement: Business ethics are gaining importance because of the growth of consumer movements all over the world. Today, consumers are well aware of their rights. Now, they are more united and organized, and hence cannot be easily cheated. They take actions against those businessmen who indulge in bad business practices. They boycott poor quality, unreliable, harmful, high-priced, and counterfeit (duplicate) goods. They even file lawsuits against bad businesses and demand huge compensation and stringent legal action. If a business is found guilty of indulging in illegal activities, it invites huge penalties, revoking of a license, lowers consumers' trust, downgrades market reputation, and even hurts profits. Therefore, the only way to survive in business is, to be honest, fair, and loyal to the consumers.

Consumer satisfaction: Today, the consumer is the king of the market. He can make a business or break a business. His every wish (expectations) should be taken as a command and must be fulfilled as early as possible. Any business simply cannot survive without its consumers. Therefore, the main aim or objective of a business must be to achieve the highest level of consumer satisfaction. If the consumer is not satisfied, then there will be no sales and eventually no profits too. Consumer satisfaction must be taken seriously. Business must be always ready to adapt itself as per the changing demands of its consumers. The consumer will be satisfied only if the business follows all the business ethics. Ethics helps to achieve consumer satisfaction to a great extent and hence are highly needed.

Importance of labour: Labour, i.e. employees, workers, or active staff play a very crucial role in the success of a business. They are the main wheels on which business actually runs. A business must use business ethics while dealing with its employees. The business must give them timely monetary compensation for their hard work by releasing appropriate wages or salaries based on working hours. The business must also provide good working conditions for its employees. The employer must welcome their suggestions, reasonable demands, and complaints. Good relations between an employer and employees is essential for the smooth functioning of a business. The employees must also be given proper welfare facilities, holiday leaves, bonuses, etc. They must be treated with dignity and respect.

Healthy competition: Today, competition is a part and parcel of our lives and business world is no exception to this. Competition is essential because it inculcates creativity and innovation, competitive pricing, affordable services, corporate responsibility, consumer satisfaction, etc in the realm of business. This competition must be healthy and should not be aggressive, fierce or cut-throat. A business must treat its competitors

as fellows and not as rival enemies. A business must never use unethical means like provocative adverts to malign the reputation of its competitors. If a competitor is successful his behavior, management, marketing skills, business tactics, customer handling, etc. must be carefully studied. Any suitable shortcomings identified must be later assimilated in the business. A business must hire brilliant and energetic minds to win this healthy competition. The business must use business ethics while dealing with its competitors. It must give equal opportunities to small-scale businesses. Monopoly must be avoided because it harms consumers.

Conclusion

Without ethical standards no matter how small or big a business may be, it simply can't withstand generosity of time, market situation, and its customers. Ethics are those supporting pillars on whose foundation the integrity, stability, and prosperity of business stand tall and upright with dignity. Higher these standards of ethics are stronger and rigid is this support. A business must never underestimate or just take for granted this crucial significance of business ethics if it wants to survive and grow in competitive and complicated economies of the contemporary world.

Types of Business Ethics

There are various types of business ethics. Both the nature of the company's business and where the company is located can affect which ethics it emphasizes. The following are some of the more common business ethics.

1. Personal responsibility

Each person who works for a business, whether on the executive level or the entry-level, will be expected to show personal responsibility. This could mean completing tasks your manager has assigned to you, or simply fulfilling the duties of your job description. If you make a mistake, you acknowledge your fault and do whatever you need to do to fix it.

2. Corporate responsibility

Businesses have responsibilities to their employees, their clients or customers, and, in some cases, to their board of directors. Some of these may be contractual or legal obligations, others may be promises, for example, to conduct business fairly and to treat people with dignity and respect. Whatever those obligations are, the business has a responsibility to keep them.

3. Loyalty

Both businesses and their employees are expected to show loyalty. Employees should be loyal to their co-workers, managers, and the company. This might involve speaking

positively about the business in public and only addressing personnel or corporate issues in private. Customer or client loyalty is important to a company not only to maintain good business relations but also to attract business through a good reputation.

4. 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. When you show respect to someone, that person feels like a valued member of the team or an important customer. You care about their opinions, you keep your promises to them, and you work quickly to resolve any issues they may have.

5. Trustworthiness

A business cultivates trustworthiness with its clients, customers and employees through honesty, transparency and reliability. Employees should feel they can trust the business to keep to the terms of their employment. Clients and customers should be able to trust the business with their money, data, contractual obligations and confidential information. Being trustworthy encourages people to do business with you and helps you maintain a positive reputation.

6. Fairness

When a business exercises fairness, it applies the same standards for all employees regardless of rank. The same expectations with regard to honesty, integrity and responsibility placed upon the entry-level employee also apply to the CEO. The business will treat its customers with equal respect, offering the same goods and services to all based on the same terms.

7. Community and Environmental Responsibility

Not only will businesses act ethically toward their clients, customers and employees, but also with regard to the community and the environment. Many companies look for ways to give back to their communities through volunteer work or financial investments. They will also adopt measures to reduce waste and promote a safe and healthy environment.

8. Data Protection

Businesses often collect information about their customers. This may only be an email address, but it could also be their physical address, or health or financial information, depending on the nature of the business. Companies that collect customer data normally promise to secure that information and not share it without the customer's

permission. The same applies to employee information. Business ethics usually protect employees' personnel records and allow access only to those with a valid need to know.

9. Customer Prioritization

One way a business shows respect for its customers is by prioritizing the customer's needs, even at the expense of the company. For example, if a customer purchases goods or services that turn out to be unsatisfactory, the business will do what it must to recompense the customer. If it is a faulty product, the business will offer a replacement or a refund. If the customer experienced bad service, the company will usually apologize and offer a discount or some other form of compensation.

10. Workplace Diversity

A business might express fairness is by placing a high importance on having a diverse workplace. Achieving a diverse workplace means using recruiting practices that give equal opportunity to people from different ethnic, gender and social groups. This can add time and effort to the hiring process, but it is worthwhile. Employing a diverse range of people gives the business the benefit of different perspectives. It also demonstrates that the company is serious about equality and treating all people with respect.

11. Whistleblower Protection

As a business grows, it becomes harder to verify that employees are keeping to the ethical standards set by the company. Sometimes the business will rely upon a whistleblower to draw attention to unethical practices within the company. To encourage employees to come forward to report unethical practices, businesses will often put in place protections against negative consequences. With these protections, employees don't need to fear losing their jobs or facing disciplinary action for pointing out unethical behavior.

12. Corporate Transparency

A business that practices transparency will be clear in its communications both with employees and to clients or customers. The language used will be unambiguous so there is no doubt about the policies or priorities that guide business decisions. Transparent corporate communications will also be honest and truthful. Everyone working for or engaging with the company should be able to trust what it says.

13. Employee Compensation

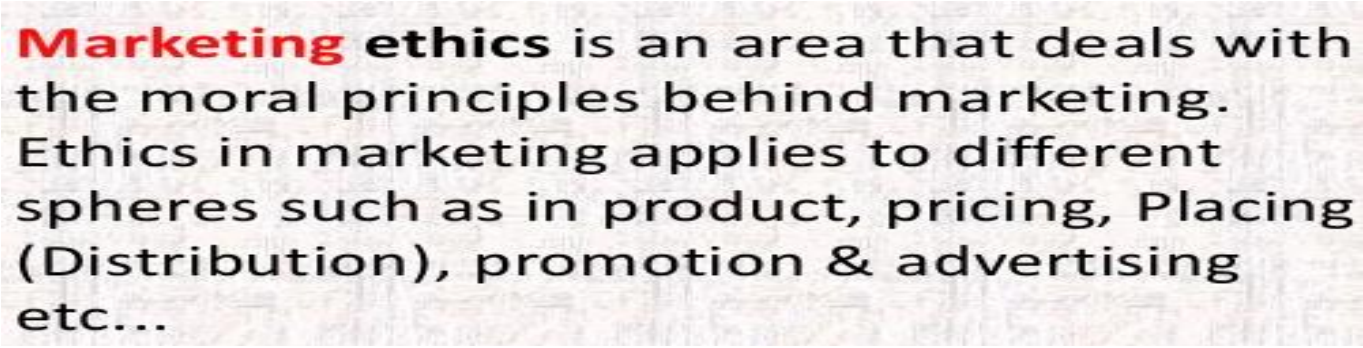
Companies adhering to principles of fairness and respect will pay their employees a fair wage for the work they do based on their experience, education and the nature of the work. They will also regularly review employee compensation and adjust it to make sure it continues to be a fair representation of the employee's position and experience.

Businesses will often reward outstanding performance with employee bonuses. These are a good incentive for employees to work hard and remain with the company. They are also a way for the business to express gratitude for the employees' efforts.

ETHICS OF MARKETING & ADVERTISING

Ethical in the functional areas of any business is necessary to ensure a good rapport between the management and the employees. In fact, all functional areas, namely marketing, finance, human resources as well as information technology should follow a code of ethics so as to function well and give maximum output. Only one person alone cannot achieve this. Each employee should feel responsible and try to stand by what is right in any given situation. In other words, it should be a team effort across all levels of the organization.

Marketing is a technique that is used to attract and persuade customers. Marketing provides a way in which a product is sold to the target audience. Marketing is a management process that identifies, anticipates and supplies consumer requirements efficiently and effectively. The main aim of marketing is to make customers aware of the products and services. It also focuses on attracting new customers and keeping existing customers interested in the product. The marketing department consists of various subdivisions, such as sales, after-sales service and marketing and research.



In the field of sales, the following ethical issues require safeguards against unethical behaviour:

- Not supplying the products made by the company as per the order
- Not accepting responsibility for the defective product
- Not giving details about the hidden costs, such as transportation cost, while making the contract with the client
- Changing the specifications of the product without giving any prior information to the customer
- Changing the terms of the business without taking any approval from the client
- Delaying the delivery of the goods without giving any proper reason

- Treating two customers differently
- Not providing the after sales service as per the contract
- Selling the same product at different prices to different customers Advertising and promotion provide the means for communicating with the customer.

In the field of advertising and promotion, the following are examples of unethical communication practices:

- Making false commitments to the customers about the benefits of the product
- Supplying products that are different from those that are advertised
- Giving wrong prices to the customers during advertising
- Not giving the promised gift in the promotional campaign
- Hiding major flaws of the product
- Providing wrong testimonials about the product to prospective customers
- Not providing the advertised service to the customers as a part of the promotional plans
- Increasing the price of the product before starting its promotional campaign
- Making false references about the competitive products While selling the product to the customer, a company provides some extended features or facilities along with the product, such as after-sales service. These facilities are provided to increase the sale of the product.

In the field of after-sales service, the following ethical issues require safeguards against unethical behaviour:

- Using below-standard material for the service and charging for relatively better material from the customer
- Using outmoded service equipment's which can be harmful for the products during service
- Not taking the service calls if the location is not easy to reach, while free service was promised before the sale of the product
- Making only temporary adjustment in the product, which can last only for a short time or to make the product useful for the time being
- Not keeping proper service records of major products for future use, as they can help in easy diagnosis of problem
- Overbilling the service charges, when the customer is not aware of the actual rates
- Using rejected or below-standard components for customer's temporary relief
- Refusing the service of the product due to personal reasons

- Exchanging healthy parts with below-standard parts when the product comes for servicing Marketing research is done to find out the needs of the market, its trends and competitive activities.

In the field of marketing research, the following are example of unethical behaviour:

- Research is conducted only to substantiate the viewpoint of the manager.
- Research is focused on the areas that do not need to be covered.
- Some old research is presented as the new one just for the purpose of financial gain.
- A biased research report is prepared to suit the marketing manager.
- The research report is sold to the competitor.
- The report does not include important facts.

Why is Marketing Ethics Important?

As per stats, 90+% of millennial consumers prefer buying products from ethical companies. Also, more than 80% of those users think that ethical brands outperform other market players that do follow ethical marketing.

Ethical marketing is essential to the overall growth and development of an organization over time.

The applied set of guidelines and rules paves the way for a morally good, organized roadmap for everyone to follow. These sometimes overlap with media ethics since they are closely related in terms of definition and functioning.

The following are the reasons why ethical marketing is an integral part of the life of an organization:

1. **Long-term gains**

The foundation of a company or organization is not just based on its ability to survive the present, but to plan a bright future.

With the adoption of proper marketing ethics, brands can employ prospects like high credibility, loyalty to customers, significant market share, increased brand value, better sales, and better revenue.

These ethical practices will put their right on their way towards the accomplishment of both short-term and long-term goals with perfection.

2. **Customer Loyalty**

This is one of the most important factors when it comes to ethical marketing.

With the proper adoption of ethics in terms of business and operation, the company can win the loyalty, trust, and confidence of its consumers that can go a long way into the future.

The natural human tendency to go after the genuine brand will surely give them promising gains, both in the present and in the future.

3. **Increased credibility**

When the organization looks forward to keeping its promises surrounding its services and products on a continuous and consistent basis, it slowly and steadily goes towards the path of carving itself into an authentic and genuine brand in the market and customers' minds.

This is not just limited to these two, and a good process can even build good respect in front of investors, peers, competitors, stakeholders, etc.

4. **Increased Leadership qualities**

When a company follows ethical practices of ethics for an extended period, it gradually stations itself as a leader, one who can benchmark its policies and strategies that surround the company's structure and functioning.

This eventually gives rise to numerous benefits like increased share in the market, higher sales, inspiration for others, respect, mutual benefits, etc.

5. **The satisfaction of basic human wants and needs**

Once an organization is on course for the proper marketing ethics, it solves the basic needs and wants of its consumers in the form of integrity, trust, and honesty.

When this is displayed for a long time, various other benefits follow.

6. **Display of a rich culture**

Not only does such a structure give a positive outlook when seen from the outside, but it also paves the way for a good structure and environment within the hierarchy internally.

This gives rise to higher production owing to a confident and highly motivated staff.

7. **The attraction of the right talent at the right place**

Once the company can create brand value in the market, it becomes a beacon for prominent individuals for the association.

Various people like prospective employees, consultants, vendors, etc. look forward to associating and working with the ethical brands that boost them exponentially. This further helps them in achieving their goals in a short period successfully.

8. **Reaching financial goals**

To function smoothly for more extended periods, the company has to have good financial partners who can help them grow and make significant strides in the market.

Once the brand follows a proper set of rules and ethical guidelines, it helps them earn the moral ground necessary to attract such people.

9. **Enhancement of brand value in the market**

Once a proper code concerning ethical marketing is followed by the organization, the public in the form of customers, competitors, stakeholders, etc. look up to such organizations. They follow such brands with religious dedication, giving them sufficient boost to mark the market.

ROLE OF ETHICS IN MARKETING

With time, our economic system has become sufficient at providing wants and needs for the public.

This has shifted the main focus of the market with an inclination towards ethical values while serving the needs of customers. This is primarily due to two reasons:

When there is ethical behavior from the organization's side, there is a more significant positive public attitude to the variety of services and goods they offer. They have to adhere to specific marketing standards to render their efforts valid to the general public.

In addition to this, ethical bodies and organizations tend to pressurize and hold organizations and companies accountable for their actions. There is a lot of questioning and sets of guidelines, which have to be strictly followed.

Ethics in marketing plays a key role in ethical decision making crucial for the optimized presence of a product or service in their target niche.

An ethical marketing strategy is responsible for paying heed upon different factors such as-

- Organization factors such as culture, norms, values, and opportunity
- Individual factors such as moral philosophies and values
- Stakeholder interests and concerns
- The intensity of ethical issues in marketing and organization setup
- Ethical decision making
- Evaluation of ethical outcomes

ETHICAL ISSUES IN MARKETING ETHICS

https://www.slideshare.net/aniketkulkarni562/ethics-in-marketing-by-aniket-kulkarni

Ethics in Advertising

Ethics means a set of moral principles which govern a person's behavior or how the activity is conducted. And advertising means a mode of communication between a seller and a buyer.

"Ethics in advertising means a set of well defined principles which govern the ways of communication taking place between the seller and the buyer.

According to Vilhjalmur Stefansson ,"Ethical advertising uses the truth to deceive the public whereas Unethical advertising uses falsehoods to deceive the public"

ETHICAL ISSUES IN ADVERTISING

Refer:https://www.slideshare.net/saralasuriya/ethical-issues-in-advertising-42948323

Controlling Body to Check Ethical Issues in Indian Advertising

- Advertising Agencies Association of India (AAAI)
- Advertising Standard Council of India (ASCI)

Advertising Standard Council of India

- **Advertising Standard Council of India.**
  Self Regulatory Organization (SRO)
  The objectives of ASCI are to make sure advertisers and advertisements are
  - ✓ Truthful and Honest
  - ✓ Not offensive
  - ✓ Not hazardous to society
  - ✓ Fair with competitors

ETHICS OF FINANCE & ACCOUNTING

Finance is an important element of an organization and it helps in its growth and development. Finance plays an important role in making resources available in an organization, such as man, machine, material, market and money. The finance manager of the firm is responsible for arranging the finances for the firm.

The finance manager can raise funds from the following two sources:

• **Internal Sources:** Internal sources means the owner's own funds that are invested as equity in the organization. In case of small organizations, the owner's contribution in terms of equity is low. Therefore, large amount of money is raised from external sources. The entrepreneur can raise finance internally from various sources:

o Deposits and loans given by owner

o Personal loan from provident fund and life insurance policy

o Funds accumulated by the retention of profits

o Ploughing back of profits

• **External Sources:** External sources means the various financial institutions from where entrepreneurs can raise funds, such as fixed capital, commercial banks and development banks. The entrepreneur can raise finance by:

o Borrowing money from friends and relatives

o Borrowing from financial institutions

The finance department of an enterprise is prone to the following unethical practices:

• Overestimating promoters' capital utilization

• Over-budgeting project costs

• Using underhand tactics with the financers to gain benefits for the firm as well as for themselves

• Purchasing capital equipments at a time when there is no requirement for it

• Selling the capital equipments in order to raise additional and unaccounted funds

• Siphoning funds for the promoter's personal benefit

• Investing unapproved funds in order to gain extra profits

• Claiming insurance cover for losses that never happened

• Overpricing the current assets in order to gain more working capital than permitted

• Using working capital funds for personal gains

The accounts department of an enterprise is prone to the following types of unethical issues:

• Showing inflated salaries and getting receipts from employees for an amount larger than what they actually get

• Playing inflated vendor bills in order to get discounts or commissions

• Paying overtime wages when there is no requirement for them

• Maintaining two different sets of books, one for the management and the other for income tax

- Refusing to reject unacceptable raw materials when the vendor bills have to be paid
- Delaying the clearance of the bills payable in order to get maximum interest for the amount to be paid
- Allotting extra travelling allowances to favourite employees
- Showing wrong figures in the monthly trial balances for personal benefits.

The following are the unethical practices of the costing manager:

- Reducing manufacturing costs by manipulating work hours
- Ignoring cost of rejects
- Ignoring cost of rework
- Not accounting for man-hours lost due to strikes and absenteeism
- Not accounting for man-hours lost in maintenance work
- Not considering the work stoppages due to change in models
- Ignoring the man-hours lost due to change in the manufacturing process
- Ignoring time lost in failed experimentations
- Not taking into account the benefits of economies of sales and experience curve.

The following points describe the unethical behaviour of the auditing manager:

- Ignoring major deviations from the budgets
- Rejecting the tender having lowest cost among all due to personal reasons
- Helping in hiding black money in order to reduce the tax payable amount
- Ignoring inflated travel bills of selected employees
- Accepting payments made by the directors for personal purchases as official payments
- Enabling the directors in sending and receiving money from overseas through unofficial hawala channels
- Approving payments to suppliers without checking bills or deliverables
- Approving the substandard construction made by the constructor and approving their bills for payment

CODES OF ETHICS IN FINANCE

Different moral codes that are supposed to be followed the finance-related behavior of a company towards its employees, customers, public and other stakeholders-

1. Acting with honesty and integrity while handling dilemmas of the world of finances
2. Not associating with any real/clear conflicts of interest in personal, or company relationships

3. Providing information that is full, accurate, fair, complete, relevant, objective, understandable, and timely in and for different documents and reports
4. Acting in accordance with all the applicable rules, laws, and regulations of governments along with other relevant public/private regulatory agencies
5. Acting responsibly and in good faith with due care, carefulness, and competence without any sort of misrepresentation of material facts
6. Respecting the confidentiality of information which is acquired in the business course and such information should not be used for the personal benefit
7. Promoting ethical behavior among all the associates and stakeholders of a company
8. Adhering and promoting a code of ethics in the company

ETHICAL DECISION-MAKING

Managers affect the behaviour and decision-making capability of individuals. The individuals in an organization are responsible for conducting business operations. Management is defined as a decision-making process. Ethical decision-making is a method of evaluating and choosing the alternatives decided by ethics management.

The following should be kept in mind while making ethical decisions:

- Identify and eliminate unethical options in the alternatives.
- Identify complex, ambiguous and incomplete facts and try to avoid them.
- Determine the ethical dilemma and resolve it.
- Select the best ethical alternative. Organizations need to perform a set of activities and take various decisions to achieve organizational goals. These are known as the business strategies of the organization. Business strategies are an important part of businesses, firms and industries. To make a business strategy, all businesses, firms and industries need to develop a strategic plan once a year. Managers of the firms are given the responsibility to achieve the goals stated in the strategic plan.

Business strategies are used for the following purposes:

- They help determine the products and services that an organization needs to provide.
- They help determine the various industries in which the organization competes.
- They help identify the competitors, suppliers and customers of the organization.
- They help analyse the long-term goals of the firm

Simon Decision-making Model

Herbert A. Simon planned a model for decision-making that was known as the Simon's model of decision-making. According to Herbert A. Simon, the decision making model is based on the following sequence of steps.

These steps are: (i) Identifying the problem

(ii) Generating alternative solution

(iii) Selecting a solution

(iv) Implementing and evaluating the solution

This model has the following three phases:

- The Intelligence phase
- The Design phase
- The Choice phase

The Intelligence Phase

A decision-maker gets to learn about the environment where a problem occurs. The scanning of environment may be continuous or irregular. For example, a review of daily scrap report by a production manager to check the problems related to quality constitutes continuous scanning, while frequent visits of a sales executive to the key customers to identify customer needs constitute irregular scanning. The intelligence phase of the decision-making process involves **problem searching and problem formulation.**

- **Problem searching:** In this phase, the difference between the expected and real result is obtained after making a decision that helps recognize the problem.

The formula for problem searching is as follows:

Deviation = Expected – Actual

For example, a sales manager sets a sales target of five lakh in a particular month as his expected target. This target could not be achieved and only four lakhs worth of sales were made. Therefore, the difference between the expected and real value of the target helps recognize the problem in setting the target.

- **Problem formulation:** In this phase, the problem is identified properly to avoid the risk of solving the wrong problem. Here, the problem is clearly stated and well understood. If, sometimes, the problem is difficult to understand, it is broken down into smaller and manageable sub-problems. Also, sometimes, relationships are established with previously solved problems that help in solving the current problem.

The Design Phase

In this phase, various alternatives are developed in order to get the best possible alternative to solve a particular problem. The decision-maker makes a detailed analysis of each and every alternative before taking the final decision.

The Choice Phase

In this phase, an alternative, which was developed in the design phase, is selected. This selection helps the decision-maker in taking appropriate decisions. After making a decision, the decision is implemented. However, at any phase, the decision-maker may return to the previous phase. For example, the decision maker in the choice phase may reject all alternatives and return to the design phase for developing new alternatives.

TYPES OF DECISIONS

Organizational decisions can differ in different ways, which initiates development of different types of decisions from which organizations can choose the appropriate decisions. Organizational decisions are primarily classified on the basis of the purpose of decision-making. Knowledge of outcomes is another approach for classifying organizational decisions. An outcome defines what is going to happen if a particular decision is taken or a particular course of action is taken. Organizational decisions involve selecting the best alternative from amongst the available alternatives. Organizational decisions are classified into the following categories:

- **Strategic planning decisions:** These are the decisions in which a decision-maker develops objectives and allocates resources for achieving these objectives. Decisions under this category are used for a long period of time and involve a large investment. For example, introducing new products and the acquisition of another organization are strategic planning decisions.
- **Management control decisions:** These are the decisions taken by the management control-level managers, who are at the middle level of the management hierarchy in an organization. These managers deal with the use of resources in the organization. The management control decisions include the analysis of variance, product mix and planning decisions.
- **Operational control decisions:** These are the decisions that deal with the day-to-day problems that affect the operation of an organization. For example, decisions such as production scheduling and inventory control fall under this category. Decisions under this category are taken by the operational-level managers, who are at the bottom-level of the management hierarchy in an organization.

- **Structured decisions:** These are the decisions that are well defined and require application and implementation of some specified procedure or decision rule in order to reach a decision. Such decisions require less time for developing alternatives in the design phase. Structured decisions are made by operating procedures or by using other accepted tools. More modern techniques for making such decisions involve operations research (OR), mathematical analysis, modelling and simulation.
- **Unstructured decisions:** These are the decisions which are not well defined and have no pre-specified procedure or decision rule. These decisions may range from one-time decisions relating to a crisis to decisions relating to recurring problems. The unstructured decisions usually consume much time in the design phase of the decision-making process. These decisions could be solved using judgement and intuition. Modern approaches to such decisions include special data analysis on computers and heuristic techniques. Such decisions are usually handled by strategic planning level managers because of their unstructured nature.
- **Semi-structured decisions:** These are the decisions that are neither structured nor unstructured. These decisions fall somewhere between the structured and unstructured decisions. For example, the introduction of a new product is a semi-structured decision.

ETHICAL DECISION-MAKING FRAMEWORKS

There are three frameworks for ethical decision-making.

These frameworks are:

- Consequence-based decision-making
- Duty-based decision-making
- Virtue-based decision-making

Consequence-based decision-making: Consequence-based decision-making is a useful approach for decision-making managers. This approach is beneficial for all the persons who are affected by this approach. This requires an appraisal of the effects of decision-making and the forecasting of outcomes.

The effects of decision-making can be measured in various ways. These are:

- Financial costs and benefits
- Human happiness
- Organizational growth

The limitations of the consequence-based decision-making framework are:

- It is hard for the managers to guess the effects of the actions.

- This approach can reduce the ethics of economics.
- There exist conflicts in the thinking of different individuals in the organization.
- This approach does not care for human life.

Duty-based Decision-making: Duty-based decision-making approach is based on the categorical imperative statement of Kant. This approach states that one should do to others only that which one would want done to oneself. This approach focuses on the people. It also considers ethics of duty.

Various limitations of the duty-based decision making approach are given as:

- It is difficult to know the intentions of individuals.
- Feelings and emotions of individuals can also cause problems.
- Like the consequence-based decision-making approach, it also does not consider human life.
- It is very difficult to collect the intentions of individuals into a rule and test it for universality.

Virtue-based decision-making: Virtue-based thinking is where a person thinks about the appropriate virtue or good in a particular decision, such as honesty, generosity and justice.

It has the following limitations:

- Applicable virtue of a person is dependent on his thinking and his surrounding environment.
- All the ethics related to virtue-based thinking are based on judgement rather than specific rules and regulations.
- Virtue is based on integrity of character. Ethical decision-making models Research on the actual irrational process of decision-making situations is limited.

Ferrell and Gresham developed a multi-stage model with three principles of ethical decision-making, which are as follows:

- Individual factors
- Organizational settings
- Opportunity to act Individual factors relate to the individual and his value system. Organizational settings refer to the environment that advances or prevents ethical actions. Opportunity to act refers to the chances, if at all, of an unethical act on the part of the individual. In a decision-making process, it is essential to relate decisions regarding possible processes to ethical content.

Ferrell and Gresham also designed a model consisting of four factors that affect ethical decision-making on perceived ethical problems, alternatives, philosophical evaluations and judgements.

These factors are:

- Personal experience
- Organizational norms
- Industry norms
- Cultural norms

To some extent, these models look complementary as they try to examine the multiple influences on ethically hypothetical situations rather than on actual decision-making procedures.

FACTORS AFFECTING DECISION-MAKING

Some of the factors and personal characteristics that have an impact on decision makers are described below.

Some factors are more important at higher levels of management and others are more important at the lower levels.

- **Programmed versus non-programmed decisions:** As discussed earlier, in the types of problems that managers face, programmed decisions are made in predictable circumstances and managers have clear parameters and criteria. Problems are well structured and alternatives are well defined. The problems are solved and decisions are implemented through established policy directives, rules and procedures. Non-programmed decisions are made in unique circumstances and the results of such decisions are often unpredictable. Managers face ill-structured problems. These problems require a custom-made response and are usually handled by the top management. To start a new business, to merge with another business or to close a plant are all examples of non-programmed decisions. For example, when Steven Jobs and Stephen Wozniak introduced the first Apple microcomputer in 1978, they were not certain about the market for it. Today, Apple Macintosh computer is a major competitor to IBM computers.
- **Information inputs:** It is very important to have adequate and accurate information about the situation for decision-making; otherwise, the merit of the decision will suffer. It must be recognized, however that an individual has certain mental constraints, which limit the amount of information that he can adequately handle. Less information is as dangerous as too much information. Some highly authoritative individuals do make

decisions on the basis of comparatively less information when compared to more conservative decision-makers.

- **Prejudice:** Prejudice and bias are introduced in our decisions by our perceptual processes and may cause us to make ineffective decisions. First, perception is highly selective, which means that we only accept what we want to accept and hence, only such type of information filters down to our senses. Second, perception is highly subjective, meaning that information gets distorted in order to be consistent with our pre-established beliefs, attitudes and values. For example, a preconceived idea that a given person or an organization is honest or deceptive, good or poor source of information, late or prompt delivery, and so on, can have a considerable effect on the objective ability of the decision-maker and the quality of the decision.
- **Cognitive constraints:** A human brain, which is the source of thinking, creativity and decision-making, is limited in capacity in a number of ways. For example, except for some unique circumstances, our memory is short term, having the capacity of only a few ideas, words and symbols. Second, we cannot perform more than a limited number of calculations in our heads and it is tough to compare all the possible alternatives and make a choice. Finally, psychologically, we are always uncomfortable with making decisions. We are never really sure if our choice of the alternative was correct and optimal until the impact of the implication of the decision has been felt. This makes us feel insecure.
- **Attitudes about risk and uncertainty:** These attitudes are developed in a person, partly due to certain personal characteristics and partly due to organizational characteristics. If the organizational policy is such that it penalizes losses more than it rewards gains, then the decision-maker would tend to avoid the alternatives that have some chances of failure. Thus, a manager may avoid a potentially good opportunity if there is a slight chance of a loss. The personal characteristics of a decision-maker regarding his attitudes towards risk taking affect the success of the decision.

The risk taking attitude is influenced by the following variables:

A. Intelligence of the decision-maker: Higher intelligence generally results in highly conservative attitudes and highly conservative decision-makers take low risks. There are others who are more willing to take calculated risks if the potential rewards are larger and there is some chance of success.

B. Expectation of the decision-maker: People with high expectations are generally highly optimistic in nature and are willing to make decisions even with less information.

The decision-makers with low expectations of success will require more and more information to decide upon a course of action.

C. Time constraints: As the complexity of the personal habits of the decision-maker and the complexity of the decision variables increase, so does the time required to make a rational decision. Even though there are certain individuals who work best under time pressures and may outperform others under severe time constraints, most people, by and large, require time to gather all the available information for evaluation purposes. However, most people under time pressure rely on 'heuristic approach', which relies on satisfactory rather than optimal decisions. This limit the search for additional information, considering few alternatives and few characteristics of alternatives and focusing on reasons to reject some alternatives. This approach may also be in use when the cost of gathering information and evaluating all such information is too high.

- **Personal habits:** Personal habits of the decision-maker, formed through social environmental influences and personal perceptual processes must be studied in order to predict his decision-making style. Some people stick to their decisions even when these decisions are not optimal. For example, Hitler found himself bound by his own decisions. Once he decided to attack Russia, there was no going back even when he realized that the decision was not the right one. Some people cannot admit that they were wrong and they continue with their decisions even ignoring such evidence, which indicates that a change is necessary. Some decision makers shift the blame for failure on outside factors rather than their own mistakes. These personal habits have a great impact on organizational operations and effectiveness.
- **Social and cultural influences:** A major impact on the style of the decision-maker is made by the social and group norms. According to Ebert and Mitchell, social norm is 'an evaluating scale designating an acceptable latitude and an objectionable latitude for behaviour activity, events, beliefs or any object of concern to members of a social unit.

Decision – making frameworks

Three Frameworks

There are three broad frameworks to guide ethical decision making:

1. The Consequentialist Framework;
2. The Duty Framework; and
3. The Virtue Framework.

The Consequentialist Framework

In the Consequentialist framework, we focus on the future effects of the possible courses of action, considering the people who will be directly or indirectly affected. We ask about

what outcomes are desirable in a given situation, and consider ethical conduct to be whatever will achieve the best consequences. The person using the Consequences framework desires to produce the most good.

Among the advantages of this ethical framework is that focusing on the results of an action is a pragmatic approach. It helps in situations involving many people, some of whom may benefit from the action, while others may not. On the other hand, it is not always possible to predict the consequences of an action, so some actions that are expected to produce good consequences might actually end up harming people. Additionally, people sometimes react negatively to the use of compromise which is an inherent part of this approach, and they recoil from the implication that the end justifies the means. It also does not include a pronouncement that certain things are always wrong, as even the most heinous actions may result in a good outcome for some people, and this framework allows for these actions to then be ethical.

The Duty Framework

In the Duty framework, we focus on the duties and obligations that we have in a given situation, and consider what ethical obligations we have and what things we should never do. Ethical conduct is defined by doing one's duties and doing the right thing, and the goal is performing the correct action.

This framework has the advantage of creating a system of rules that has consistent expectations of all people; if an action is ethically correct or a duty is required, it would apply to every person in a given situation. This even-handedness encourages treating everyone with equal dignity and respect.

This framework also focuses on following moral rules or duty regardless of outcome, so it allows for the possibility that one might have acted ethically, even if there is a bad result. Therefore, this framework works best in situations where there is a sense of obligation or in those in which we need to consider why duty or obligation mandates or forbids certain courses of action.

However, this framework also has its limitations. First, it can appear cold and impersonal, in that it might require actions which are known to produce harms, even though they are strictly in keeping with a particular moral rule. It also does not provide a way to determine which duty we should follow if we are presented with a situation in which two or more duties conflict. It can also be rigid in applying the notion of duty to everyone regardless of personal situation.

The Virtue Framework

In the Virtue framework, we try to identify the character traits (either positive or negative) that might motivate us in a given situation. We are concerned with what kind

of person we should be and what our actions indicate about our character. We define ethical behavior as whatever a virtuous person would do in the situation, and we seek to develop similar virtues.

Obviously, this framework is useful in situations that ask what sort of person one should be. As a way of making sense of the world, it allows for a wide range of behaviors to be called ethical, as there might be many different types of good character and many paths to developing it. Consequently, it takes into account all parts of human experience and their role in ethical deliberation, as it believes that all of one's experiences, emotions, and thoughts can influence the development of one's character.

Although this framework takes into account a variety of human experience, it also makes it more difficult to resolve disputes, as there can often be more disagreement about virtuous traits than ethical actions. Also, because the framework looks at character, it is not particularly good at helping someone to decide what actions to take in a given situation or determine the rules that would guide one's actions. Also, because it emphasizes the importance of role models and education to ethical behavior, it can sometimes merely reinforce current cultural norms as the standard of ethical behavior.

Putting the Frameworks Together

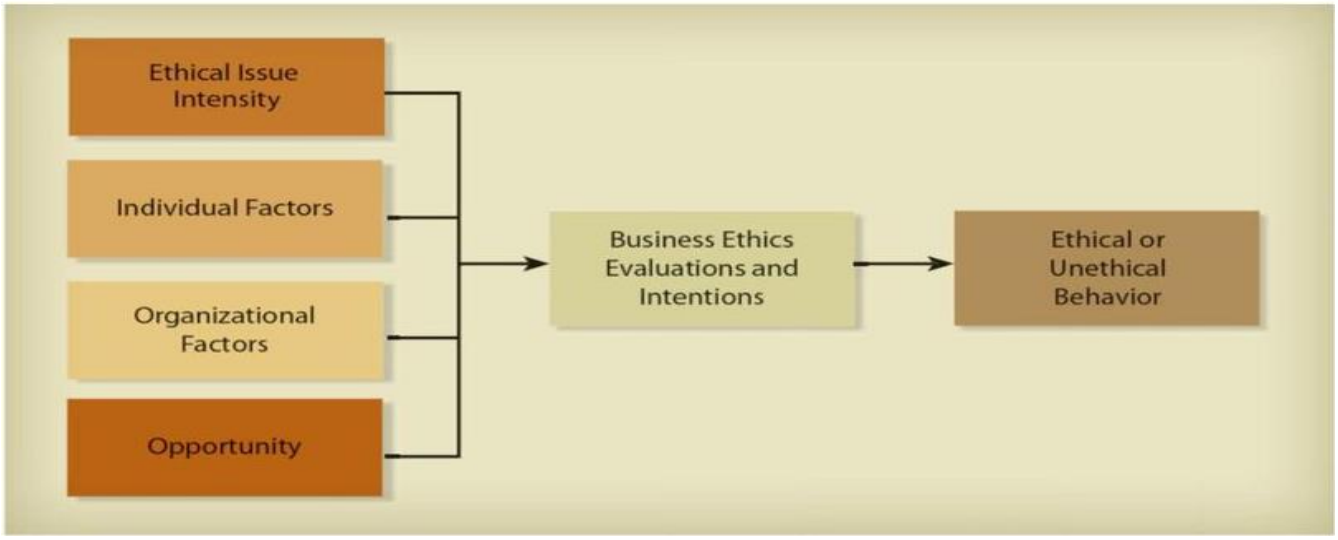
By framing the situation or choice you are facing in one of the ways presented above, specific features will be brought into focus more clearly. However, it should be noted that each framework has its limits: by focusing our attention on one set of features, other important features may be obscured. Hence it is important to be familiar with all three frameworks and to understand how they relate to each other—where they may overlap, and where they may differ.

The chart below is designed to highlight the main contrasts between the three frameworks:

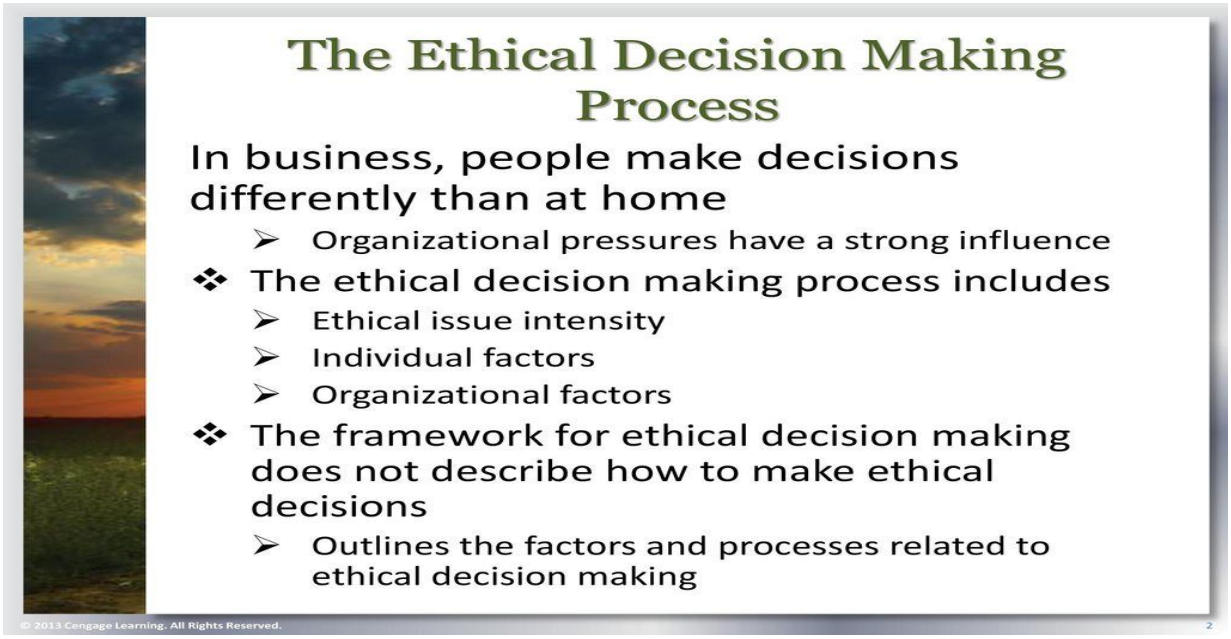
	Consequentialist	**Duty**	**Virtue**
Deliberative process	What kind of outcomes should I produce (or try to produce)?	What are my obligations in this situation, and what are the things I should never do?	What kind of person should I be (or try to be), and what will my actions show

			about my character?
Focus	Directs attention to the future effects of an action, for all people who will be directly or indirectly affected by the action.	Directs attention to the duties that exist prior to the situation and determines obligations.	Attempts to discern character traits (virtues and vices) that are, or could be, motivating the people involved in the situation.
Definition of Ethical Conduct	Ethical conduct is the action that will achieve the best consequences.	Ethical conduct involves always doing the right thing: never failing to do one's duty.	Ethical conduct is whatever a fully virtuous person would do in the circumstances.
Motivation	Aim is to produce the most good.	Aim is to perform the right action.	Aim is to develop one's character.

Framework for Understanding Ethical Decision Making in Business



The ethical decision making process in business includes ethical issue intensity, individual factors, and organizational factors such as corporate culture and opportunity. All these interrelated factors influence the evaluations of and intentions behind the decisions that produce ethical or unethical behavior. This model does not describe how to make ethical decisions, but it does help you to understand the factors and processes related to ethical decision making.



Ethical Issue Intensity

The perceived relevance or importance of an ethical issue to the individual, work group, and/or organization

- Reflects the ethical sensitivity of the individual and/or work group
- Triggers the ethical decision making process
- Individuals are subject to six spheres of influence

Workplace	Legal system
Family	Community
Religion	Profession

***Moral intensity**: Relates to a person's perception of social pressure and the harm his/her decision will have on others*

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Individual Factors

People base their ethical decisions on their own values and principles of right or wrong

- Values are learned through socialization
- Good personal values decrease unethical behavior and increase positive work behavior
- Values are subjective; vary across cultures

- An organization may intend to do right, but organizational or social forces can alter this intent
- Research shows that various factors influence ethical behavior
  - Gender–women are more ethical than males
  - *Education*, *work experience*, *nationality* and *age* affect ethical decision making

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Locus of Control

Relates to individual differences in relation to a general belief about how one is affected by internal versus external events or reinforcements

- Managers with
  - **External locus of control** go with the flow because that's all they can do
  - **Internal locus of control** believe they can control events; are masters of their destinies and trust in their capacity to influence their environment

Unclear relationship between locus of control and ethical decision making

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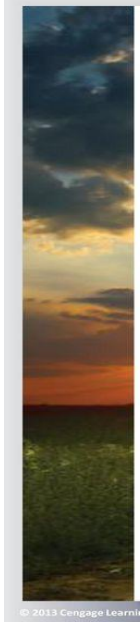

Organizational Factors

Organizational culture has a stronger influence on employees than individual values

- **Corporate culture**: A set of values, norms, and artifacts that members of an organization share
  - **Ethical culture**: Reflects whether the firm has an ethical conscience; is a function of many factors
- **Significant others**: Those who have influence in a work group
- **Obedience to authority**: Helps to explain why many employees unquestioningly follow superior's orders

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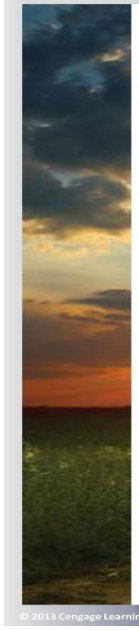

Opportunity

The conditions in an organization that limit/permit ethical/unethical behavior

- **Immediate job context**: Where employees work, with whom they work, and the nature of the work
- Opportunities for misconduct can be reduced by establishing formal codes, policies, and rules
  - Aggressive enforcement is required

Knowledge can sometimes lead to unethical behavior

- *A person who has an information base, expertise, or information about competition has an **opportunity** to exploit knowledge*

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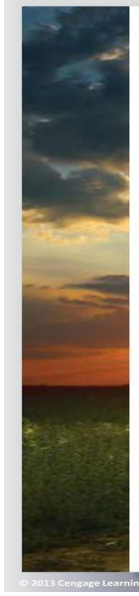

Business Ethics Evaluations and Intentions

Ethical dilemmas involve situations where rules are vague or in conflict

- Critical thinking skills and ability to take responsibility are important
- The final step is deciding what action to take based on a person's intentions
- Guilt or uneasiness is the first sign that an unethical decision has occurred

Most businesspeople will make ethical mistakes

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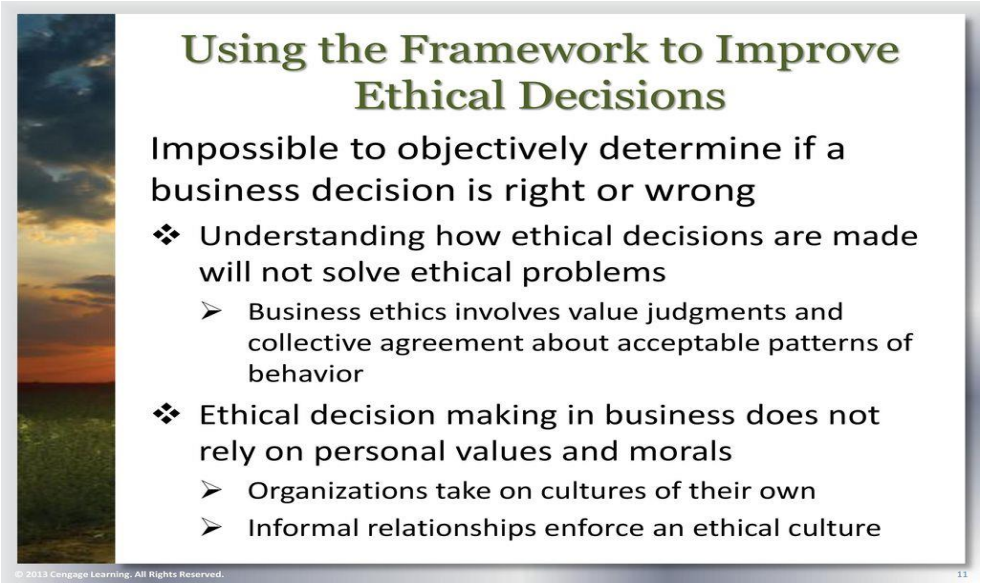


SOCIAL RESPONSIBILITIES OF A BUSINESS TOWARDS VARIOUS INTEREST GROUPS

Interest groups consist of the various persons connected with a business, such as consumers, shareholders and the community.

The responsibilities of a business towards various interest groups are as follows:

• **Responsibilities towards consumers:** A consumer is a person who determines what goods shall be produced and whether they should be sold in the market or not. Consumers not only determine the income of the business but also affect the success and survival of the business. Therefore, a business has some basic responsibilities towards the consumers and these are as follows:

o To produce those goods that meet the needs of consumers of different tastes, classes and purchasing power

o To establish the lowest possible price with efficiency and reasonable profit to the business

o To ensure fair distribution of products among all sections of the consumers

o To make the products more satisfactory to consumers through the study of consumer needs

o To handle the complaints of consumers more carefully and to analyse them properly

o To answer consumers' enquiries related to the company, its products and services

• **Responsibilities towards shareholders:** The basic responsibility of a business is to ensure the safety of investment and higher rate of return on the investment. Owners of a business may be proprietors, partners or shareholders. The interest of shareholders lies in participating in the management and getting regular dividends at appropriate

rates. It is, therefore, the responsibility of the management to improve communication between the company and its shareholders. This can be done by providing maximum information to the shareholders through newsletters, annual reports or by holding the annual general meeting of the company at an appropriate time and place so that the maximum number of members can come and participate in the discussions.

- **Responsibilities towards community:** The management has the responsibility of informing the community about the organizational policies, activities and contribution towards the betterment of society. The various other responsibilities towards the community are as follows:

o Financial help to the municipal and district boards for the improvement of housing conditions

o To help the community by aiding hospitals, schools, colleges, religious institutions, and so on

o To organize community forums and group discussions to promote better understanding of national and local affairs

o To encourage sports and provide recreational facilities

CONCEPT OF SOCIAL RESPONSIBILITY

The evolution of the concept of social responsibility of business has passed through different stages of struggle. Business began merely as an institution for the purpose of making money. As long as a man made money and kept out of jail, he was considered successful. He felt no particular obligation and acknowledged no responsibility to the public. As an owner of his business, he thought that he had a perfect right to do with it what he pleased. Social norms and attitudes had very little influence on the practice of business.

Social responsibility of business is important from the following point of view.

1. **From employees' point of view:** with the help of companies employment and healthy working condition, social responsibility of business is important for employees.
2. **From Customer point of view:** under social responsibility, business follows ethical practice and manufacture the product which is as per expected quality and reasonable price.
3. **From investor point of view:** business who understand value of social responsibility is provide protection to the investor fund with help of development and growth of its business as well as expected return to investors with profit earn by it.
4. **From Suppliers point of view:** the importance of social responsibility is also require to perform in case of suppliers as they are one to provide raw material to business as

well as other required material. When they are paid on time as well as reasonable demands of them are satisfied company, suppliers are loyal to business.

5. From government point of view : when business pay regular taxes, follow the norms of government then it is consider as social responsibility of business which is duly fulfill by it.

6. **From Society point of view:** business need to work in society, some importance of social responsibility is also define from society point of view. The business provide good product, try to maintain clean environment, provide opportunity to participate to business as well as work for the overall development of society, these are the some example of it.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is how companies manage their business processes to produce an overall positive impact on society. It covers sustainability, social impact and ethics, and done correctly should be about core business - how companies make their money - not just add-on extras such as philanthropy.

According to European Union commission, "CSR is a concept whereby companies integrate social and environment concerns in their business operations and in their interaction with their stakeholder on a voluntary basis."

According to Forbes (2010), corporate social responsibility works in two ways. The company gives back to the society, in turn, people get to know about the company who helped them most and cater to their products and services.

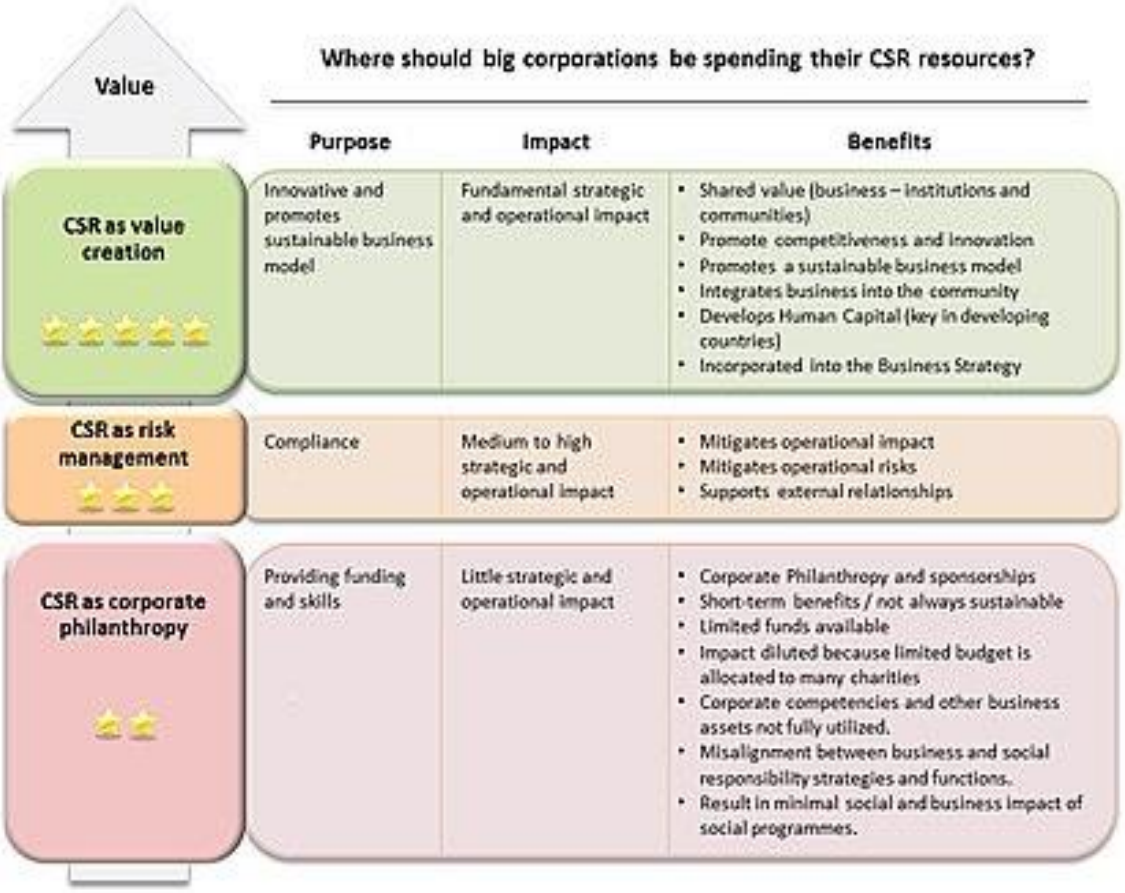
According to Infosys founder, Narayan Murthy, "Social responsibility is to create maximum shareholders value, working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment."

Potential business benefits of CSR: The scale and nature of the benefits of CSR for an organization can vary depending on the nature of enterprise, and are difficult to quantify, though there is large body of literature exhorting business to adopt measures beyond financial ones. The business case for CSR within a company will likely rest on one or more of these arguments.

Human resources: A CSR programmed can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage.

- **Risk management** managing risk is a central part of many corporate strategies. Reputation as take decades to build up can be ruined in hours through incident such as corruption scandals or environmental accident. These can also draw unwanted attention from regulators, courts, governments & media. Building a genuine culture of _doing the right thing' within a corporation can offset these risk.
- **Brand differentiation** in crowded market places, company's striving for a unique selling proposition. That can separate them from the competition in the minds of consumers. CSR can play role in building customer loyalty based on distinctive ethical values.
- **License to operate corporation** are keen to avoid interference in there business through taxation. By taking substantive voluntary steps, they can pursuit governments that they are taking issues such as health & safety, diversity, or the environment seriously as good corporate citizen with respect to labor standards and impacts on the environment.

VARIOUS APPROACHES OF CSR



WHAT IS THE PURPOSE OF CORPORATE SOCIAL RESPONSIBILITY?

1. Boost Employee Engagement and Morale

A company that is socially responsible can increase the engagement of its workforce. Increasingly so, workers want to be part of something bigger than just their job. So rather than go into the office, work, go home, and repeat, they are part of something more meaningful.

Some firms have dedicated CSR teams that focus on events to help charities. For instance, sports or sponsored events may be organised to raise money. The aim is to get employees involved and feel like they are also contributing to society, but with the support of their employer.

In turn, it helps to create meaning for employees outside of work as well. As a side effect, this can be helpful for the mental wellbeing of employees. Often they can become demotivated by the daily grind, so it can be motivational to help them become part of something bigger.

Interestingly, the values of a company are becoming more important the younger the employee. For example, nearly **9 out of 10 millennials** would take a pay cut to work at a company with similar values. By comparison, only 9 percent of baby boomers would do the same. This would suggest that as we more forward, the social responsibility of the company is going to be important in attracting and keeping workers.

At the same time, there are **studies** that back this up, stating employee engagement is linked positively to CSR.

2. Betterment of Society

Much of the CSR that is conducted is through charities. Whether that is to assist with manual labour, or helping fund them. Charities such as Cancer Research, the Salvation Army, or the Red Cross foundation, all benefit from CSR in some shape or form.

In turn, such charities receive the funding they need to help fight against cancer, help the homeless, and contribute to disaster relief. We also have some businesses that are actively donating to good causes. For example, **Amazon donated $3 million** to the Center for Science and Innovation at Seattle University. The aim was to increase access to STEM and computer science education to women and other minorities.

Elsewhere, Wells Fargo, a US bank, contributed over **$444 million to 11,000 charities** in 2018. More than $117 million was spent helping people buy their own home, including down payment assistance. Furthermore, over $90 million of this was spent in education, helping underprivileged communities into higher education.

Overall, such actions can truly benefit local communities by helping those struggling in society. Such donations can help people out of poverty, fight illness, and increase the wellbeing of people in general.

3. Brand Image

Corporate Social Responsibility can play an important role in a brands image and reputation. For instance, a study by **Edelman, and Young & Rubicam**, found that 87% of consumers from the UK expect firms to consider their societal impact as much as their own, while more than 70% of people make a point of buying from companies with views similar to their own.

So it is not only morally beneficial, but it can also help the companies bottom line. If customers are more likely to shop at ethical companies, it means more business for them. So even though there are greater costs, it can prove to be a win-win through higher demand.

The research shows that consumers do in fact buy from firms whose values align with theirs. For example, those who have significant concerns over the environment may look to businesses that use green technologies and invest in renewable energy. Such research includes that from **Accenture**. The study concluded that 63 percent of consumers are buying goods and services from companies that reflect their own personal beliefs.

PRINCIPLES OF CSR

- Effects of organisations' activities on society

As a result of these effects, three principles form the justification for CSR engagements by firms:

1. Sustainability
2. Accountability
3. Transparency

Sustainability

- Sustainability implies that society must at all times use no more of its resources than can be generated. It is concerned with how the actions of the present have recurring effects upon the opportunities of the future.

Accountability

- Here an organisation must recognise that its actions generally affect the external environment and therefore assume responsibility for the effects of its actions.

Transparency

- Transparency, in principle, means that all acts are obvious or communicated to all concerned. As a principle of CSR, transparency indicates that organisations make clear all reports of their actions and that those reports, whether in facts or figures, give accurate and detailed information of the relevant information.

CONCEPT/TYPES OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility.

1. Environmental Responsibility

Environmental responsibility refers to the belief that organizations should behave in as environmentally friendly a way as possible. It's one of the most common forms of corporate social responsibility. Some companies use the term "environmental stewardship" to refer to such initiatives.

Companies that seek to embrace environmental responsibility can do so in several ways:

- Reducing pollution, greenhouse gas emissions, the use of single-use plastics, water consumption, and general waste
- Increasing reliance on renewable energy, sustainable resources, and recycled or partially recycled materials
- Offsetting negative environmental impact; for example, by planting trees, funding research, and donating to related causes

2. Ethical Responsibility

Ethical responsibility is concerned with ensuring an organization is operating in a fair and ethical manner. Organizations that embrace ethical responsibility aim to achieve fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers.

Firms can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the state or federal

government doesn't constitute a "livable wage." Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labor.

3. Philanthropic Responsibility

Philanthropic responsibility refers to a business's aim to actively make the world and society a better place.

In addition to acting as ethically and environmentally friendly as possible, organizations driven by philanthropic responsibility often dedicate a portion of their earnings. While many firms donate to charities and non-profits that align with their guiding missions, others donate to worthy causes that don't directly relate to their business. Others go so far as to create their own charitable trust or organization to give back.

4. Economic Responsibility

What is a business? The business itself is an economic activity. Its main function is to earn profits. To earn profits means to understand the needs and demands of consumers whether it is regarding the quality of the product or its price. While understanding the perspective of the consumer and meeting their needs and demand to earn a profit is the economic responsibility of a business. When a business earns a profit, it also means that the employees earn the profit in terms of incentives. The economic growth of a business is not restricted to it but affects the society as a whole.

CORPORATE GOVERANCE

- Corporate governance is a system of rules, policies, and practices that dictate how a company's board of directors manages and oversees the operations of a company;
- Corporate governance includes principles of transparency, accountability, and security.
- Poor corporate governance, at best, leads to a company failing to achieve its stated goals, and, at worst, can lead to the collapse of the company and significant financial losses for shareholders.
- Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

According to Organisation for Economic Co-operation and Development (OECD) Corporate governance is 'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations'.

It encompasses the mechanisms by which companies, and those in control, are held to account.

Benefits of Corporate Governance

The benefits of good corporate governance

Compliance

The business carries out its functions in a manner that complies with the rules and regulations in the regions in which it operates. This helps it avoid costly penalties and reputational damage.

Efficiency of process

Streamlining your organisational procedures allows you to look at your existing processes within the business and find ways to make them more efficient.

Risk identification

If you can accurately identify risk factors, you can mitigate them before they become an issue. This forward-thinking, strategic approach gives a real competitive edge.

Better decision making

Good governance gives top-level decision-makers the information they need to make quick and effective choices.

Strong strategic planning

Access to vital information coupled with good internal communication lay the foundations of a board that can create better business strategies.

Improved brand image

Good governance makes the organisation more desirable for talented new directors. As investors pay more and more attention to ESG reporting, the 'G' in it, which stands for 'governance', is also entering the spotlight. Nowadays, good governance is vital to attracting and retaining the right shareholders. It can even make it less expensive to borrow capital, as companies with strong governance, including robust financial management reporting, pose less of a risk to lenders.

HOW TO ACHIEVE GOOD CORPORATE GOVERNANCE

1. Balance board composition

If all board members have the same level of experience, with similar skill sets, you will not find the diversity of opinion that is required to rigorously challenge the company's strategy and ensure it is watertight. Greater diversity on boards introduces new ways of thinking and creative methods of solving problems, which prevent directors from resting on their laurels.

Board diversity is all about filling gaps in boardroom expertise to provide a broader range of viewpoints and a fresh perspective using strategic succession planning.

2. Evaluate the board regularly

A diverse board that works well on paper is one thing, but how they actually perform in real life is another thing altogether. This is why regular evaluations are important. They help you track progress over a period of time and understand where your own strengths lie as well as giving you a good understanding of the areas that need improvement. One way to achieve this is with Boardclic's board evaluation tool that provides you with a benchmark against your own performance and that of your competitors. This way you'll know what 'good corporate governance' means for your company and your industry.

Evaluations are mandatory in some jurisdictions, but they are also important, no matter what the legislation mandates. They are critical to building sound corporate governance and stakeholder value.

Open communication and transparency in the evaluation process breeds confidence and trust within the company and helps you in your efforts to grow that diverse board of directors.

Evaluations should not be a tick-the-box exercise; they should feature candid, in-depth conversations that give you real data to work with to instil a culture of continuous improvement.

3. Ensure director independence

Independence is desirable on a board that wants to break away from safe, conservative thinking. Forward-looking boards need directors that are not afraid to think outside of the box, rather than simply continue down the same road the company has always taken. It helps create innovation and avoid stagnation.

In addition, independent directors are more likely to provide insights that benefit the shareholders, given their different perspective on matters.

4. Ensure auditor independence

Undue influence over the work of audit committees and independent auditors is a concern in terms of corporate governance. Investors need to know that they can trust the financial reporting that an issuer makes, so independence is key to show that the reports are accurate and tell the true tale of the company.

5. Be transparent

The previous point feeds into this one. Transparency is essential for good corporate governance. The openness and willingness to share accurate, clear and easy-to-understand information with stakeholders, including shareholders, breeds trust and solidifies a business's reputation.

This means that organisations have to **accurately report the bad news** as well as the good. Trying to avoid negative publicity only to be found out later is more damaging for a business and its reputation. Full disclosure breeds integrity.

Create a plan of what you will share with shareholders and how often so that they can see that your intention is to be as transparent as possible.

6. Define shareholder rights

Shareholders should know their rights when they invest in your business and you should ensure that the rights you provide are backed up by your Articles of Association, constitution and company bylaws.

Decide whether all shareholders have the same voting rights or whether different classes of holdings have preference.

Can they approve certain transactions?

Can the board act without their approval?

Do you have policies for extraordinary transactions?

These are all issues you need to resolve before formalising shareholder rights and ensuring you regularly review your policies.

7. Aim for long-term value creation

Although short-term wins look good and create opportunities for publicity, long-term value creation should be the aim for a company with solid governance. A business that is committed to sustainable growth is likely to be much less volatile than a company with its eye only on the short term.

8. Manage risk proactively

Identifying risks is important, but taking a proactive approach to mitigate that risk before you face it is the goal. Rather than attempting to weather the storm, it is better for the organisation to avoid the storm completely.

A solid risk management process, an internal control framework and an up-to-date disaster recovery plan are all key to achieving this aim.

9. Follow sustainability best practices

Sustainability and strategic management are increasingly intertwined in the corporate world, as investors make their preferences heard. Major events such as Covid-19 and the climate crisis have thrown into sharp relief the need for a sustainable outlook from issuers. Consumers have also started to prefer shopping with businesses that boast sustainable practices.

In addition, there is increasing regulatory pressure for reporting of environmental, social and corporate governance metrics, so issuers are advised to get ahead of the game and be prepared for the upcoming ESG compliance legislation.

10. Document policies and procedures

There should be easy to access documentation of your policies and procedures relating to shareholder rights, executive compensation, board meeting operation, the election of new directors and more. This ensures transparency and consistency within the organisation.

CORPORATE CITIZENSHIP

Definition:

- Corporate citizenship refers to a company's responsibilities toward society.
- Corporate citizenship is growing increasingly important as both individual and institutional investors begin to seek out companies that have socially responsible orientations such as their environmental, social, and governance (ESG) practices.
- Companies go through increasing stages during the process of developing corporate citizenship.

The Development of Corporate Citizenship

The five stages of corporate citizenship are defined as:

1. Elementary
2. Engaged
3. Innovative
4. Integrated
5. Transforming

Elementary

Also known as the compliant stage, the citizenship activities in the elementary stage are undefined because there is not enough corporate awareness and scant senior

management involvement. Small businesses, for example, usually comply with the applicable health, safety and environmental laws, but have neither the time nor the resources to get involved in other community and employee development activities.

Engaged

In the engaged stage, policies are developed for employees and managers to participate in activities that go beyond rudimentary compliance. Senior management becomes more actively involved by developing corporate-wide policies and tasking management at all levels to perform to higher standards of corporate citizenship.

Innovative

Corporate citizenship policies are more comprehensive in the innovative stage. Innovation and learning are achieved through increased stakeholder consultations and participation in forums and conferences. Corporate citizenship programs are funded and launched, usually at the functional level and with the support of senior management. There is some measure of transparency as companies monitor their community involvement and issue public reports.

Integrated

Corporations incorporate and formalize citizenship activities in the integrated stage. By monitoring performance through scorecards and indicators, corporations "drive citizenship into their lines of business," according to Googins and Mirvis. The boards of directors of public companies might be involved in monitoring performance by setting up special board-level corporate citizenship committees. Other formal efforts to integrate citizenship activities include stakeholder consultations and formal training.

Transforming

Companies in the transforming stage have realized that corporate citizenship makes strategic sense in developing new markets and driving sales growth. Mirvis and Googins cite ice-cream manufacturer Ben & Jerry's integrated economic and social strategy that attracts environmentally-conscious consumers. Multinational corporations strive to become better global citizens in the transforming stage. For example, drug companies, such as Merck and Novartis, donate or offer discounted drugs to developing nations, and technology companies, such as Intel and Hewlett-Packard, invest in social and education projects in developing countries where they operate.