

BUSINESS ETHICS: A PUSH TOWARDS CSR

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Abstract

In any organization, ethic plays an important role. Ethics are based on moral guidelines to conduct the business. It is based on the notion of what is right, wrong and fair. Business actions will then be judged by not that which is efficient or effective but by that which is “morally defensible” (Wozniak, 2011). On the other hand, Corporate Social Responsibility (CSR) is defined as responsibility of the corporate towards the society. As all the resources needed for the business comes from the society so it’s the prior responsibility of the company to give something in return to the society. Corporate social responsibility (CSR) refers to a firm's moral, ethical and social obligations beyond its own economic interests (Brown & Dacin, 1997; McWilliams & Siegel, 2001). Therefore, it is often defined as corporate responsibility, corporate citizenship, social enterprise, sustainable development, triple-bottom line, corporate ethics, and in some cases, corporate governance. So sometimes, corporate social responsibility and ethics are used interchangeable.

The present paper will study the impact of ethics on CSR. So, this paper will compare the CSR practices and ethical companies on the basis of secondary data collected from Ethisphere report, Forbes etc. Moreover, to understand the process of identifying and monitoring the ethicality of organisational processes and the relationship to its CSR activities, latest survey report 'CR's 100 Best Corporate Citizens', by a leading magazine in the CSR space, the Corporate Responsibility (CR) magazine, will also be considered.

Key words: *Corporate Social Responsibility, ethics,*

INTRODUCTION

Ethics or moral philosophy is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct. As a branch of philosophy, ethics investigates the questions "What is the best way for people to live?" and "What actions are right or wrong in particular circumstances?" In practice, ethics seeks to resolve questions of human morality, by defining concepts such as good and evil, right & wrong, virtue and vice, justice and crime. In the business too, the same rule applies i.e. doing right towards the society, environment, stakeholders, shareholders etc. According to Milton Friedman, “there is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” (Milton Friedman, Sept 1970). Peter Drucker felt that while businesses need

to make profits to justify their economic existence, it would be tyrannical on their part to ignore their responsibility towards the society (Peter.F.Drucker, 1993). The leaders of the corporate world too have understood the importance of Business Ethics and CSR in the modern world. As the founder of Infosys, Narayana Moorthy points out: “Investors, customers, employees and vendors have all become discerning and are demanding greater transparency and fairness in all dealings”.

So, the business ethics along with CSR are of key importance in the existence of companies. Most of the companies are turning their motives and goals from the profit making concept to ethic and CSR. Companies utilise different sets of instruments in order to be regarded as ethical organisations (e.g. codes of ethics, ethical values and norms). In practice, however, such companies often operate in a completely different manner (Lőrinczy and Sroka, 2015). Taking into account the aforementioned circumstances, the goal of our paper is to identify the use of Business Ethics by the companies and performance of those companies towards CSR practices.

REVIEW OF LITERATURE

Ethics is derived from the Greek word ‘ethos’ which means a person’s fundamental orientation toward life. It may be defined as a theory of morality which attempts to systematize moral judgments (Paswan, 2015). Business ethics has a long history through storytelling to illustrate and reinforce the sense of value, family, belief and justice (Fischer and Lovell, 2009). Business Ethics covers the areas of moral principles and decision making, governance issues and codes of conduct for a business. Business actions will then be judged by not that which is efficient or effective but by that which is “morally defensible” (Wozniak 2011 pp 304).

The classical aim of the firm, to make profit for its shareholders or the profit motive of the firm, has evolved over several decades to include meeting expectation for its stakeholders. Stakeholder theory is a broad concept that combines economic, social and environmental objectives to meet expectations of society, environment, employees, customers, suppliers and other entities in affected by the corporation (Calafell et. al, Jensen, 1976). Samuel O. Idowu (2007), with their study of twenty companies in U.K., propounded that the U.K. companies has now become ethical in the content of social responsibility as companies disclose its CSR with a view of public benefits, government request and issue information to stakeholders because the companies think that stakeholders of twenty first century are better educated them past. Truscott, Bartlett, Trwoniak (2009), paper “The reputation of Corporate Social Responsibility industry in Australia” in Australian marketing journal, based on case study methodology. On the basis of the interview of key persons of industries in Australia, the term CSR has been explained. The industrialist revealed that CSR increasingly has become significant. They shared their views of CSR in economic, legal and ethical roles of business in society. Beside this, the industrialist viewed CSR as a model of corporate reputation.

CSR typically includes issues related to business ethics, community engagement, global warming, water management, manage the use of natural resources, human rights etc. So, in order to get sustainable development and to survive in this competitive world, the organizations need to demonstrate a close and good relationship with society.

CSR AND BUSINESS ETHICS

CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms .So, it is company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. The concepts of business ethics and social responsibility have distinct identities. Yet, they are often used to refer to the same argument or code. The term business ethics is supposed to be "a combination of two very familiar words, namely business and ethics" (Dimitriades 2007 pp1).

Today, business cannot afford to ignore CSR, society through consumer activists should be the last thing to force a firm to behave in a socially responsible manner. Kentucky Fried Chicken (KFC) has been called Kentucky Fried Forests because of its non-environmentally friendly sourcing of packing material from unprotected forests (National Public Radio report, April 14, 2009), ExxonMobil has been embroiled in a costly legal battle to fend off fines for the Exxon-Valdez oil spill (on march 24, 1989 in Alaska). It is clear that no business can survive by ignoring society, environment and the world around.

So, ethics can be the part of CSR, where the business corporations are "morally" responsible to look after the concerns of a larger group of stake holders which could include owners, customers, vendors, employees and community rather than its stockholders i.e. the owners of the business alone (Rodin 2005 pp561). Moreover, taking the responsibility of world around the business also shows the ethical behaviour of the business.

TOP CORPORATE RESPONSIBLE CITIZEN IN 2016

Form the last 17 years Corporate Responsibility Magazine (CRM) has released a ranking of what it calculates to be the best corporate citizens—companies that behave responsibly towards the world at large and the those within their own organizations. This year each company on CRM's list was ranked on nearly 300 data points in seven categories: Environment, Climate change, employee relations, human rights, corporate governance, financial performance, philanthropy & community support.

From the last 2 years, Microsoft is at the top position of CRM's list, having ranked no.1 in the categories of Environment, Human Rights and Philanthropy, and eighth in Climate Change. As per the statement of Elliot Clark, CEO of CR Magazine, the companies are measured on the basis of most transparent companies who report on their responsible practices with the goal to advance corporate accountability and responsibility.

Intel, took second place (which was seventh place last year), received a caution from CRM in the form of a Yellow Card, which constitutes a finger-wag from the organization but without stripping it from the overall ranking. Intel's infraction was, according to CRM, a September 2015 class-action lawsuit that saw the company – as well as Apple, Google and Adobe – pay \$415 million to current and former employees who alleged the four firms secretly agreed not to steal each others' staff. On the CRM list, Intel ranked number one in Employee Relations and ninth in Human Rights.

Hasbro, which fell to third place overall from the two-spot last year, scored highly as well: second place in Human Rights, fourth place in Climate Change, and sixth place in Employee Relations.

Johnson & Johnson (fourth on the list) also received a Yellow Card from CRM, after a product produced by a company subsidiary – Ethicon Endo-Surgery – caused injury to a patient. The product, a hemorrhoid stapler, was recalled and \$70 million in punitive damages were awarded in December of 2015. The case is currently under appeal. On CRM's list, Johnson & Johnson were ranked third in the Climate Change category, fourth in Employee Relations and ninth in Human Rights.

One firm that was knocked out of the top 20 due to an infraction that received a Red Card from CRM was E.I. DuPont De Nemours & Co. Slated for the 19th spot on the list, the company was taken off after an inspection by OSHA last year – prompted by the deaths of four workers – discovered “serious, willful and repeat violations” in the company's safety protocols.

In compiling its list, CRM – part of the corporate consultancy, Corporate Responsibility Association – uses publicly available information to rank firms, starting with the Russell 1000 Index. All data are collected and analyzed by IW Financial, a Portland, Maine-based financial analysis firm serving the environment, social, governance investment community.

Table-1: List of top 15 Companies

Rank	Co.	Weighted Average Score	Environment Rank	Climate Change Rank	Human Rights Rank	Employee Relations Rank	Corporate Governance Rank	Philanthropy Rank	Financial Rank

		Weighting	19.5%	16.5%	16.0%	19.5%	7.0%	12.5%	9.0%
1	Microsoft Corporation	17.81	1	8	1	14	101	1	69
2*	Intel Corp.	30.32	14	55	9	1	65	18	112
3	Hasbro, Inc.	39.36	9	4	2	6	366	11	94
4*	Johnson & Johnson	43.05	28	3	9	4	129	39	233
5	Ecolab, Inc.	43.34	15	9	57	25	111	7	181
6	Bristol-Myers Squibb Co.	49.38	29	59	38	57	36	66	67
7	Xerox Corp	51.92	3	45	19	63	116	19	201
8	Lockheed Martin Corp.	54.45	6	34	19	87	191	87	38
9	Lexmark International, Inc.	58.225	2	17	2	26	395	6	236
10	Campbell Soup Co.	58.47	39	36	57	10	107	23	261
11*	S&P Global (McGraw Hill Financial)	59.095	71	29	72	46	30	53	125
12	AT&T, Inc	60.16	13	19	9	21	85	51	407
13*	Computer Sciences Corp	64.975	58	28	72	78	69	14	194
14	Accenture plc	66.7	58	28	72	78	69	14	194
15	Abbott Laboratories	67.605	23	25	101	51	92	28	255

*Indicates “yellow card” caution; remains on list.

Note:-

Intel Corp. In September 2015, a class-action lawsuit was settled without admission of wrongdoing by Apple, Google, Intel and Adobe paying a total of \$415 million to current and former employees. The lawsuit alleged that the four companies conspired in a secret anti-poaching “gentlemen’s agreement” whereby the four companies agreed to not steal each others’ staff.

Johnson & Johnson In December 2015, a jury awarded \$70 million in punitive damages against Johnson & Johnson’s subsidiary Ethicon Endo-Surgery, LLC for injuries to a patient allegedly

caused by a defective Ethicon PPH 03 hemorrhoid stapler. Ethicon did recall 144,693 PPH 03 units sold between 2011 and 2012; however, the stapler used in the surgery was discarded and it is unknown if it was, in fact, one of these units and there remain appealable issues of culpability with respect to the attending surgeon. The case is currently being appealed.

AT&T, Inc. In June 2015 the FCC announced plans to fine AT&T Mobility \$100 million for misleading customers about its “unlimited” mobile data plans, imposing the agency’s largest proposed fine ever in alleging that the carrier “severely” slowed down the data speeds for customers with such plans. In December 2015, AT&T Mobility, LLC, agreed to settle allegations that it charged mobile customers without their permission for third-party services

Computer Sciences Corp. In June 2015, CSC reached an agreement in principle with the U.S. Securities and Exchange Commission (SEC) to settle a long-standing civil investigation involving certain accounting matters from fiscal 2009-2012. The SEC additionally charged former finance executives with manipulating financial results and concealing significant problems in previous years about the company’s largest and most high-profile contract. The SEC additionally charged former finance executives involved with CSC’s international businesses for ignoring basic accounting standards to increase reported profits. The charges all related to accounting periods prior to the appointment of the current leadership. The new leadership has created a new corporate culture and has been aggressive in their efforts related to transparency and disclosure

Apart from these companies , there are so many companies which has been listed in CR’s 100 best corporate citizens 2016.

ETHICAL COMPANIES LIST-2016

For the last so many years, Scottsdale, Arizona-based Ethisphere Institute – an organization focused on ethical business practices – has put out a list of the “World’s Most Ethical Companies.” This week the firm announced its 2016 honorees—firms it feels represent some of the best the international business world has to offer.

In the list of 2016, Ethisphere’s roster includes 131 companies from 21 countries, representing 45 industries. The list includes 14 -10-time honorees and 13 first-time honorees. The overall goal of Ethisphere’s rankings is to reward organizations with good practices and offer a model – and actionable advice – on how corporate entities should conduct themselves.

Ethisphere Institute’s annual ranking is made up of companies that have submitted to be vetted for the chance to become an honoree. During the process, Companies in the running are asked 180 questions to form Ethisphere’s proprietary “Ethics Quotient“ score—part of a vetting process that evaluates them in categories including ethics and compliance programs, corporate citizenship and

responsibility, culture of ethics, governance, and leadership, innovation and reputation. Once all the information is in, Ethisphere's staff – with help from its panel of advisers – verify as much as is possible through research, executive interviews, perusing financial filings and looking through reports from online sources and news reports. Analysts research each company's history of litigation, reputation, and ethical track record. Industry, size, geographic location, and other factors, are all taken into consideration.

Ethisphere rejects companies that have significant legal charges pending and won't consider firms that deal in alcohol, tobacco or firearms.

Table-2: List of Ethical Companies in India

Rank	COMPANY	INDUSTRY	COUNTRY
1.	National Australia Bank	Bank	Australia
2.	Teachers Mutual Bank	Bank	Australia
3	The Razidor Hotel Group	Lodging & Hospitality	Belgium
4	Natura Cosméticos	Health & Beauty	Brazil
5	Convenant Health	Healthcare Providers	Canada
6	Empresa de Desarrollo Urbano	Government Services	Colombia
7	Capgemini	Consulting Services	France
8	L'OREAL	Health & Beauty	France
9	Schneider Electric SE	Diversified Machinery	France
10	Henkel & Co.KGaA	Consumer Products	Germany
11	Cementos Progreso, S.A	Construction & Building material	Guatemala
12	William E.Connor & Associates Ltd.	Sourcing services	Hong kong

13	Tata Steel Limited	Metals, Minerals & Mining	India
14	The Tata Power Company Limited	Electric Utility	India
15	Wipro Limited	Information Technology Services	India

The above list shows that, after fulfilling all the requirements, National Australia Bank has got the first rank and Teachers Mutual bank got the second rank under the List of ethical companies,2016. Moreover, some of the Indian Companies like Tata steel, Tata power and Wipro ltd. also bagged 13th,14th & 15th position in the list. There are many more companies in the ethical companies list but due to space limit only 15companies has been shown.

CONCLUSION

Due to various global issues and the global business practices, ethics and CSR are getting importance in the business in every nick and corner of the world. Being ethical and responsible is awakening terminology for the business. Somewhere it is followed due to compulsion like in the case of country like-India, where CSR is the latest amendment in the Companies Act. Under which it is mandatory for the companies to work towards CSR activities or somewhere it is followed by actually taking the responsibility of the society around the business.

CSR has been the part of ethical and responsible business practices for long. But it is the part of those business houses where the CSR is followed not due to the compulsion but due to their own wish. Moreover in the list i.e. Ethical Companies list-2016 and Top Corporate Responsible Citizen in 2016, it's seen that the companies which hold first position in one list is not appearing at the same position in the other list. Example- Microsoft holding the first position in CR magazine is holding 83rd position in ethical companies list. Moreover, there are many more companies which are holding good position in Top Corporate Responsible Citizen in 2016 is not even appearing in the ethical companies list. So, this shows that the ethics will be the part of CSR or vice versa, only if the company is following the CSR practices under their business ethics. We do find that CSR activities are one of the vehicles to actualize the reshaping of these norms. Other business processes such as corporate governance, corporate outreach and politics, business process redesign, and corporate strategy are also tools and strategies that need to be adopted by firms, to reconcile with the ethicality of doing business.

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