CHAPTER- IV

ETHICS AND SOCIAL RESPONSIBILITY OF CORPORATE WORLD

In the last two decades or so, attention has been drawn to the idea that businesses also have obligations to the wider communities. This has been manifested in the (now well-organised and articulated) business ethics movement and in the corporate social responsibility movement. Within their contexts, concepts such as stakeholders and codes of practice have been, and are being developed.

The word ethics in the term business ethics comes from the Greek word ethos meaning "character or custom"\(^1\). Ethics has been defined in a variety of ways, inter alia, as: "the study of morality"\(^2\); "inquiry into the nature and grounds of morality where the term morality is taken to mean moral judgments, standards and rules of conduct"\(^3\); and/or as "the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong"\(^4\). Based on these conceptualizations, the definition of business ethics adopted here comprises "the moral principles and standards that guide behavior in the world of business"\(^5\), whereas "an organization's obligation to maximize its

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positive impact, and minimize its negative impact, on society” is being termed corporate social responsibility.⁶

The term "business ethics" is used in a lot of different ways. Business ethics is a form of applied ethics⁷ that examines ethical principles and moral or ethical problems that arise in a business environment.⁸ It applies to all aspects of business conduct⁹ and is relevant to the conduct of individuals and business organizations as a whole.¹⁰

Applied ethics is a field of ethics that deals with ethical questions in many fields such as technical, legal, business and medical ethics.¹¹

Business ethics consists of a set of moral principles and values¹² that govern the behavior of the organization with respect to what is right and what is wrong.¹³ It spells out the basic philosophy and priorities of an organization in concrete terms.¹⁴ It also contains the prohibitory actions at the workplace.¹⁵ It provides a framework on which the

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⁶ Ibid., p. 67.
organization could be legally governed. With time, certain moral philosophies have helped in the evolution of four basic concepts of ethics. They are deontologism, relativism, egoism, and utilitarianism.\textsuperscript{16}

Business ethics is the behavior that a business adheres to in its daily dealings with the world.\textsuperscript{17} The ethics of a particular business can be diverse.\textsuperscript{18} They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.\textsuperscript{19}

Many businesses have gained a bad reputation just by being in business.\textsuperscript{20} To some people, businesses are interested in making money, and that is the bottom line.\textsuperscript{21} It could be called capitalism in its purest form.\textsuperscript{22} Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behavior.

\textsuperscript{21} Solomon, Robert C., Above the Bottom Line: An Introduction to Business Ethics, op. cit.
Good business ethics should be a part of every business. There are many factors to consider. When a company does business with another that is considered unethical, does this make the first company unethical by association? Some people would say yes, the first business has a responsibility and it is now a link in the chain of unethical businesses.

Many global businesses, including most of the major brands that the public use, can be seen not to think too highly of good business ethics. Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor.

If a company does not adhere to business ethics and breaks the laws, they usually end up being fined. Many companies have broken anti-trust, ethical and environmental laws and received fines worth

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millions. The problem is that the amount of money these companies are making outweighs the fines applied. The profits blind the companies to their lack of business ethics, and the money sign wins.

A business may be a multi-million seller, but does it use good business ethics and do people care? There are popular soft drinks, fast food restaurants, and petroleum agencies that have been fined time and time again for unethical behavior. Business ethics should eliminate exploitation, from the sweat shop children who are making sneakers to the coffee serving staff who are being ripped off in wages. Business ethics can be applied to everything from the trees cut down to make the paper that a business sells to the ramifications of importing coffee from certain countries.

In the end, it may be up to the public to make sure that a company adheres to correct business ethics. If the company is making large amounts of money, they may not wish to pay too close attention to their ethical behavior. There are many companies that pride themselves in

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37 Aiken, L. R., Psychological Testing And Assessment (Boston: Allyn and Bacon), 1991.
their correct business ethics, but in this competitive world, they are becoming very few and far between.

In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. higher tax for luxurious vehicles). Businesses can often attain short-term gains by acting in an unethical fashion; however, such behaviours tend to undermine the economy over time.

Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility

46 Cory, J., Activist Business Ethics, op/ cit., p. 11.
charters). In some cases, corporations have redefined their core values in the light of business ethical considerations (e.g. BP's "beyond petroleum" environmental tilt).

Business ethics as a self-conscious (voluntary) way of looking at business has shown a major growth since the 1980s. In particular, in the USA in the 1970s, concerns were being voiced in relation to several developments:

- rising costs of litigation involving architects, accountants and lawyers\(^3\)
- positive discrimination
- product safety (e.g. Ralph Nader’s campaign on car safety)
- the “Watergate” scandal
- public sector strikes
- environmental issues (e.g. Environmental Protection Policy Act, 1969)
- “Whistleblower” issues\(^47\)
- corporate bribery of foreign officials\(^48\)
- transport disasters (e.g. Challenger spacecraft explosion in 1986)
- plant explosions (e.g. at Bhopal, India, 1984\(^49\); Seveso, Italy, 1976)

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\(^{49}\) In 1984 an explosion at a Union Carbide plant in India killed at least 8,000 people.
One of the consequences of such events as these - usually unintended - developments for businesses.\textsuperscript{50} was a demand for the establishment of formal codes of business practice. The Growth of corporate codes of ethics and of corporate ethics officers\textsuperscript{51} was thus boosted partially by the fact that a corporation fined several million dollars could expect up to a 95\% discount if had such a code and procedure in place\textsuperscript{52} (Hagar, 1991, Vogel, 1992). Today around 90 percent of Fortune 500 firms have a corporate code of practice and many companies provide to their employees guidelines for ethical decision making through corporate Web sites\textsuperscript{53}.

This part of business ethics overlaps with the philosophy of business, one of the aims of which is to determine the fundamental purposes of a company\textsuperscript{54} (De George, 1987). If the company's main purpose is to maximize the returns to its shareholders,\textsuperscript{55} then it should be seen as unethical for a company to consider the interests and rights of anyone else.\textsuperscript{56}

\textsuperscript{52} for example the case of the Canadian telecom company “Nortel” in the Web site: www.nortel.com/cool/ethics/decision7.html.
Corporate social responsibility or CSR works as an umbrella term under which the ethical rights and duties existing between companies and society is debated.\textsuperscript{57}

Fundamentally finance is a social science discipline.\textsuperscript{58} The discipline shares its border with behavioural science, sociology,\textsuperscript{59} economics, accounting and management. Finance being a discipline concerned technical issues such as the optimal mix of debt and equity financing, dividend policy, and the evaluation of alternative investment projects, and more recently the valuation of options, futures, swaps, and other derivative securities, portfolio diversification etc., often it is mistaken to be a discipline free from ethical burdens.\textsuperscript{60} However frequent economic meltdowns that could not be explained by theories of business cycles alone have brought ethics of finance to the forefront. Finance ethics is overlooked for another reason: issues in finance are often addressed as matters of law rather than ethics.\textsuperscript{61} Looked closer into the literature concerning finance ethics one can be convinced that as it is the case with other operational areas of business, the ethics in finance too is vehemently disputed.

\textsuperscript{60} Dobson, J., \textit{Finance Ethics: The Rationality of Virtue}, p. xvii.
Ethics of the Finance Paradigm

Conventionally economics is seen as a moral science and philosophy directed at a shared "good life" (Aristotle - For Aristotle, "the end and purpose of the polis is the good life"), which Adam Smith characterized in terms of a set of external material goods and internal intellectual and moral excellences of character.

Smith in his Wealth of the Nations commented, "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind."

However, a section of economists influenced by the ideology of neoliberalism interpreted the objective of economics to be maximization of financial growth through accelerated consumption and production of goods and services. Under the influence of the neoliberal ideology, business finance which was a component of economics is promoted to constitute the core of the neoliberal economics.

Proponents of the ideology hold that financial flow, if redeemed from the shackles of "financial repressions", it can be put into service of the impoverished nations. It is held that the liberation financial systems would ensure economic growth through competitive capital market system ensuring promotion of high levels of savings, investment,

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64 Ibid., p.vi
66 Ibid., p. 56.
employment, productivity, foreign capital inflows and thereby welfare along with containing corruption.

In other words, it was recommended that governments of the impoverished nations should open up their financial systems to global market with the least regulation over the flow of capital. The recommendations however met with serious criticisms from various schools of ethical philosophy. For the pragmatically oriented ethicists, blind submission to the a priori claims, such as the claim of "invisible hand" which are merely ideological, could be ethically counterproductive. The welfare claim of the Laissez-faire finance is disputed because, welfare would be overridden given a conflict with liberty.

Further, history of finance does not suggest that firms always maintain principles of honesty and fairness under unregulated environments. The prudence and ethics of recommendations to the countries which were impoverished by the ravages of centuries of colonial exploitation, subsequent cold wars and subjection to imperial hegemony to unconditionally open up their economies to transnational finance corporations is fiercely contested by ethicists from various

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quarters.\textsuperscript{71} Further, the claim that deregulation and the opening up economies bringing down corruption too is contested.\textsuperscript{72}

The firm, within the finance paradigm, is seen as a complex network of contractual relations, mostly implicit, between various interest groups. "Within this finance paradigm, a rational agent is simply one who pursues personal material advantage ad infinitum."\textsuperscript{73} In essence, to be rational in finance is to be individualistic, materialistic, and competitive.\textsuperscript{74}

Business is a game played by individuals, as with all games the object is to win, and winning is measured in terms solely of material wealth. Within the discipline this rationality concept is never questioned, and has indeed become the theory-of-the-firm's sine qua non.\textsuperscript{75}

Ethics of finance is narrowly reduced to the mathematical function of shareholder wealth maximization. Such simplifying assumptions are necessary in the field of finance for the construction of mathematically robust models.\textsuperscript{76} Such a mathematical chimera, it is observed, lets the experts in the field of finance into the vice of greed justification. However, the signaling theory and agency theory

\textsuperscript{74} Shaw, W. H. and Barry, V., \textit{Moral Issues in Business} (Belmont, CA: Thomson / Wadsworth), 2004
\textsuperscript{75} Dobson, J., \textit{Finance Ethics: The Rationality of Virtue} op. cit., p. ix
\textsuperscript{76} Ibid., p. xvi.
within the domain of finance reveal clearly the normative undesirability of wealth maximization.\textsuperscript{77} Ethics seen from the stakeholder perspective is the privilege of the immediate and remote stakeholders as much as it is the obligation of the firms towards them.

**Operational Areas of Financial Ethics**

In the sections devoted to "Financial Ethics" in "Business Ethics" text books ethics of financial markets, financial services and financial management are discussed.\textsuperscript{78} Fairness in trading practices, trading conditions, financial contracting,\textsuperscript{79} sales practices, consultancy services, tax payments, internal audit, external audit, (creative) accounting scandals.\textsuperscript{80}

**Ethics of Human Resource Management**

The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship\textsuperscript{81}, such as the rights and duties owed between employer and employee.\textsuperscript{82}

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\textsuperscript{77} Ibid.
\end{flushleft}
Discrimination issues include discrimination on the bases of age (ageism), gender, race, religion, disabilities, weight and attractiveness, employment law, occupational safety and health.

*Ethics of Sales and Marketing*

Marketing, which goes beyond the mere provision of information about (and access to) a product, may seek to manipulate our values and behavior. To some extent society regards this as acceptable, but where is the ethical line to be drawn? Marketing ethics overlaps strongly with media ethics, because marketing makes heavy use of media. However, media ethics is a much larger topic and extends outside business ethics.

Marketing Ethics is a subset of business ethics. Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act. Marketing ethics

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too, like its parent discipline, is a contested terrain. Discussions of marketing ethics are focused around two major concerns: one is the concern from political philosophy\(^91\) and the other is from the transaction-focused business practice.\(^92\)

On the one side, following ideologists like Milton Friedman and Ayn Rand, it is argued that the only ethics in marketing is maximizing profit for the shareholder.

On the other side it is argued that market is responsible to the consumers and other proximate as well as remote stakeholders as much as, if not less, it is responsible to its shareholders.\(^93\)

The ethical prudence of targeting vulnerable sections for consumption of redundant or dangerous products/services,\(^94\) being transparent about the source of labour (child labour, sweatshop labour, fair labour remuneration), declaration regarding fair treatment and fair pay to the employees, being fair and transparent about the environmental risks, the ethical issues of product or service transparency [being transparent about the ingredients used in the product / service\(^95\) - use of genetically modified organisms, content, "source code" in the case of

software, appropriate labelling, the ethics of declaration of the risks in using the product/service (health risks, financial risks, security risks etc.), product/service safety and liability, respect for stakeholder privacy and autonomy, the issues of outsmarting rival business through unethical business tactics etc., advertising truthfulness and honesty, fairness in pricing & distribution, and forthrightness in selling etc., are few among the issues debated among people concerned about ethics of marketing practice.

Ethical discussion in marketing is still in its nascent stage. Marketing Ethics came of age only as late as 1990s. As it is the case with business ethics in general, marketing ethics too is approached from ethical perspectives of virtue, deontology, consequentialism, pragmatism and also from relativist positions. However, there are extremely few articles published from the perspective of 20th or 21st century philosophy of ethics.

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One impediment in defining marketing ethics is the difficulty of pointing out the agency responsible for the practice of ethics.\textsuperscript{104} Competition, rivalry among the firms, lack of autonomy of the persons at different levels of marketing hierarchy, nature of the products marketed, nature of the persons to whom products are marketed,\textsuperscript{105} the profit margin claimed, and everything relating the marketing field does make the agency of a marketing person just a cog in the wheel.\textsuperscript{106} Deprived of agency, the hierarchy of marketing hardly lets one with an opportunity to autonomously decide to be ethical.\textsuperscript{107} Without one having agency, one is deprived of the ethical choices.\textsuperscript{108}

Marketing ethics is not restricted to the field of marketing alone, rather its influence spread across all fields of life and most importantly construction of "socially salient identities for people" and "affect some people's morally significant perceptions of and interactions with other people, and if they can contribute to those perceptions or interactions going seriously wrong, these activities have bearing on fundamental ethical questions".\textsuperscript{109} Marketing, especially its visual communication, it is

observed, serve as an instrument of epistemic closure\textsuperscript{110} restricting worldviews within stereotypes of gender, class and race relationships.

\textit{Ethics of Production}

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm.\textsuperscript{111} Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process\textsuperscript{112} and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies\textsuperscript{113} or changing social perceptions of acceptable risk.

Examples:

Defective, addictive and inherently dangerous products and services (e.g. tobacco, alcohol, weapons, motor vehicles, chemical manufacturing, bungee jumping). Ethical relations between the company and the environment: pollution\textsuperscript{114} environmental ethics, carbon emissions trading

Ethical problems arising out of new technologies: genetically modified food, mobile phone radiation and health.

\textsuperscript{110} Ibid.
Product testing ethics: animal rights and animal testing, use of economically disadvantaged groups (such as students) as test objects.

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\textit{Ethics of Intellectual Property, Knowledge and Skills}

Knowledge and skills are valuable but not easily "ownable" as objects. Nor is it obvious who has the greater rights to an idea: the company who trained the employee, or the employee themselves? The country in which the plant grew, or the company which discovered and

developed the plant's medicinal potential? As a result, attempts to assert ownership and ethical disputes over ownership arise.

**Ethics and Technology**

The computer and the World Wide Web (WWW) are two of the most significant inventions of the twentieth century. There are many ethical issues that arise from this technology. It is easy to gain access to information. This leads to data mining, workplace monitoring, and privacy invasion.

Medical technology has improved as well. Pharmaceutical companies have the technology to produce life-saving drugs. These drugs are protected by patents and there are no generic drugs available. This raises many ethical questions.

**International Business Ethics**

While business ethics emerged as a field in the 1970s, international business ethics did not emerge until the late 1990s of that decade.

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Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values receive more emphasis in this field.

**Ethics of Economic Systems**

This vaguely defined area, perhaps not part of but only related to business ethics, is where business ethicists venture into the fields of political economy and political philosophy, focusing on the rights and wrongs of various systems for the distribution of economic benefits. John Rawls (1971) and Robert Nozick (1974) are both notable contributors.

**Law and Business Ethics**

Very often it is held that business is not bound by any ethics other than abiding by the law. Milton Friedman is the pioneer of the view.

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130 A thinker with wide-ranging interests, Robert Nozick is one of the most important and influential political philosophers, along with John Rawls, in the Anglo-American analytic tradition. His first and most celebrated book, Anarchy, State, and Utopia (1974), produced, along with his Harvard colleague John Rawls’ A Theory of Justice (1971), the revival of the discipline of social and political philosophy within the analytic school. Rawls’ influential book is a systematic defense of egalitarian liberalism, but Nozick’s Anarchy, State, and Utopia is a compelling defense of free-market libertarianism.
He held that corporations have the obligation to make a profit within the framework of the legal system, nothing more.\textsuperscript{133} Friedman made it explicit that the duty of the business leaders is, "to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom."\textsuperscript{134} Ethics for Friedman is nothing more than abiding by "customs" and "laws". The reduction of ethics to abidance to laws and customs however have drawn serious criticisms.\textsuperscript{135}

Counter to Friedman's logic it is observed that legal procedures are technocratic, bureaucratic, rigid and obligatory whereas ethical act is conscientious, voluntary choice beyond normativity. Law is retroactive. Crime precedes law.\textsuperscript{136} Law against a crime, to be passed, the crime must have happened. Laws are blind to the crimes undefined in it.\textsuperscript{137} Further, as per law, conduct is not criminal unless forbidden by law which gives advance warning that such conduct is criminal. Also, law presumes the accused is innocent until proven guilty and that the state must establish the guilt of the accused beyond reasonable doubt. As per liberal laws followed in most of the democracies, until the government prosecutor proves the firm guilty with the limited resources


available to her, the accused is considered to be innocent. Though the liberal premises of law is necessary to protect individuals from being persecuted by Government, it is not a sufficient mechanism to make firms morally accountable.

**The Nature of Business Ethics**

There is no consensus as to the nature of business ethics. In fact the business- and-society literature shows a great disparity of opinions. The opponents of business ethics assume that they have sufficient grounds for rejecting it. Some typical views are:

- “Ethics and business don’t mix - business is a technical, not an ethical matter”

- “It is naive to think that business will let ethics get in the way of making profits”

- “There are no ethical companies, because they all break the ethical rules from time to time”.

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It is useful at this stage to note that business is driven by values. Not all values are *ethical* in the sense of expressing duties, such as fairness, or honesty, or obligations to honour promises or contracts. Some values are *technical*, expressing skilled operation of business. Others are *prudential*, expressing a need to avoid unwanted repercussions or legal sanctions. Some advocates of business ethics as a discipline can be thought of as advocating “better” ways of encouraging or enforcing conventional standards. They may even propose new values or practices. These advocates are able, logically, to evaluate business operations in these terms. The standards themselves are capable of analysis in terms of the ethical principles of fairness, honesty, or promise keeping (for example). The standards and their application are capable of analysis in terms of consistency, clarity and much else. To do so is to do business ethics. Thus, everything business does is ethically relevant. Business can no more escape having an ethics than it can avoid having a structure or reputation.

It may be added further that¹⁴⁴:

- “the case against monopoly is always an ethical case (‘it distorts the market’, and is an unfair practice in restraint of trade’). “Top business executives usually claim that ‘integrity’ (an ethical concept) is essential for business success” (and ‘success’ is a value concept, as is ‘consumer sovereignty’).

- “politicians enact laws governing business on the basis of their policies, which have a strong ethical ideology, so business responses must address the same language of good and proper practice”.

“That a company breaks the law, as many do, does not make it illegal. Similarly, a company that breaks an ethical rule does not make it wholly ethics-free or make ethics irrelevant”.

Even criminal gangs have ethical codes. Conflicting ethical codes can co-exist in the same community, but some dominate others.

The Business Ethics Debate

Systematic handling of values of various kinds, attitudes to business ethics, ethics and morals and their differences are all issues raised within the context of the debate of business ethics.

The business ethics has two distinct meanings or interpretations which can be termed “Ethics 1” and “Ethics 2”. These are not often explicit and perhaps not always recognised. “Ethics 1” concerns conventional ethics. A core question related to this is whether firms or individuals act according to the values that are dominant in the culture in which they live. If not, how can they be persuaded or forced to do so?

“Ethics 2” relates to “evaluative ethics”. The following questions arise at this point: Are the dominant values defensible? On what grounds? In what ways could or should they be evolved? How, if at all, should they be enforced?

Approaches to Ethics

1. Utilitarian Approach

2. Moral Rights Approach
3. Social Justice Approach

a. Liberty Principle

b. Difference Principle

c. Distributive-Justice Principle

d. Fairness Principle

e. Natural-Duty Principle

Some of the issues related to business ethics, law and regulation can be summarized within three different approaches, namely relativism, subjectivism and objectivism:

*Relativism* is the idea that ethics depend upon the time and place. The main perspective within the context of relativism is that what is obligatory in one country or time can be seen as immoral in another (e.g. bribery, free markets, monopoly, slavery; hire-and-faire working relationships).

*Subjectivism* is concerned with the idea that values are a matter of individual taste and preferences.

In *Objectivism* the predominant idea is that there are at least some values that are not dependent upon time and place or individual whims. These values include keeping promises, telling the truth, doing good and not harm, treating people as you would want them to treat you, just to mention a few.

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The issues raised in the above-mentioned approaches have been the subjects of long-running debates for millennia. There is some truth in all the above, but they do not provide the whole truth. For example the fact (if it is a fact) that there may be groups of people somewhere in the world who think that lying is essential to prosperity is only a fact. However, this fact-finding does not prove they are right.

As against that, the observations still apply that universal assent proves nothing true and furthermore that values cannot logically be derived from facts. Many of the issues listed above as ethical are covered by various laws, such as those relating to environmental protection, discrimination at work, safety, bribery or monopoly. So, Why is ethics needed as well? The answer may be that laws are derived from values such as those of governments in office, and, often, from the values of the various pressure and interest groups that governments consult (OECD, 2001/).

A second reason may be that the law covers only some of the rule-making processes in business. Businesses have their own codes of practice, whether written down or not. Business federations and trade associations also increasingly have their codes. Some do so as a result

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of pressures from consumers, or to avoid legislation or the imposition of a regulatory authority.\textsuperscript{150}

A third reason may be that it would be too expensive to attempt to cover all aspects of behaviour by laws, and to police them.\textsuperscript{151}

The plurality of regulatory agencies, which exist, gives an idea of how states and institutions try to refine notions of business misconduct. Regulatory agencies serve as intermediate institutions between businesses and the law. Although they may be set up by law, and often have powers to fine companies, they provide for a great deal of input from the industry concerned. They can publish discussion papers, and usually have staff on secondment from the relevant industries. Britain, for example, has regulatory bodies for:

Electricity and Gas supply (OFWAT and OFGAS), Financial services (Financial Service Authority), Education (OFSTED), Rail operation, Water Supply (OFWAT), Telecommunications (OFTEL), and Co-operatives and friendly Societies (Registrar of Friendly Societies and Co-operatives) among others.

\textbf{Code of Business Ethics}

\textbf{Major Trends in Code of Ethics}


\textsuperscript{151} For example, many laws need to be supported by codes of practice, particularly in labour relations and financial services, and by judicial decisions that clarify or make law.
1. interest in codifying business ethics has led to both the proliferation of formal statements by companies and to their prominence among business documents’

2. Such codes used to be found solely in employee handbooks.

3. Companies are adding enforcement measures to their codes

4. Increased attention by companies in improving in employee’s training in understanding their obligations under the company’s code of ethics

**Corporate Social Responsibility**

Business dictionary defines CSR as “A company’s sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources.”

A broader definition expands from a focus on stakeholders to include philanthropy and volunteering.

The concepts of business ethics and social responsibility are often used interchangeably, although each has a distinct meaning. The term business ethics represents a combination of two very familiar words, namely "business" and "ethics". The word business is usually used to mean "any organization whose objective is to provide goods or services

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for profit"\textsuperscript{154}, whereas organizations are defined as "(1) social entities that (2) are goal oriented, (3) are designed as deliberately structured and coordinated activity systems and (4) are linked to the external environment"\textsuperscript{155}. One of the most important organizational elements highlighted by this definition is that organizations are indeed open systems, i.e. they must interact with the environment in order to survive. 

.... "The organization has to find and obtain needed resources, interpret and act on environmental changes, dispose of outputs, and control and coordinate internal activities in the face of environmental disturbances and uncertainty"\textsuperscript{156}. The fact that business organizations are open systems means that although businesses must make a profit in order to survive they must balance their desire for profit against the needs and desires of the society within which they operate. Hence, despite the fact that in market economies business organizations are traditionally allowed some degree of discretion … being "ostensibly free to choose what goods and services they produce, the markets they aim to serve and the processes by which they produce"\textsuperscript{157}, organized societies around the world did indeed establish principles and developed rules or standards of conduct - both legal and implicit - in order to guide businesses in their efforts to earn profits in ways that do not harm society as a whole.

Corporate social responsibility is a multidimensional construct comprising four subsets of (1) economic; (2) legal; (3) ethical; and (4)

\begin{itemize}
  \item Ibid., p. 14.
\end{itemize}
voluntary philanthropic responsibilities\textsuperscript{158}. The economic responsibilities of a business are to produce goods and services that society needs and wants at a price that can perpetuate the business and satisfy its obligations to investors. Thus social responsibility, as it relates to the economy, encompasses a number of specific issues including how businesses relate to competition, shareholders, consumers, employees, the local community and the physical environment.

The legal responsibilities of businesses are simply the laws and regulations they must obey. It is the bare minimum required of business organizations by society in return for allowing them to obtain the inputs they need from the environment, transform inputs into outputs and dispose of outputs -- in the form of goods and services acquired by consumers in order to satisfy their individual needs and wants. The legal dimension of corporate social responsibility thus refers to obeying local, national and international law regulating competition (procompetitive legislation) and protecting: workers' human rights (equity and safety legislation); the consumer (consumer protection legislation); and the natural environment (environmental protection laws). Ethical responsibilities are those behaviours or activities expected of business by society -- yet not codified in law. This subset of corporate social responsibilities may be interpreted as expressing the 'spirit of the law' vis-à-vis the 'letter of the law' in the previous case. Lastly voluntary philanthropic responsibilities are those behaviours and/or activities desired of business by society and referring to business contributions to society in terms of quality of life and society's welfare - for example, giving to charitable organizations and/or supporting community projects.

Although there would appear to be little disagreement about the need for organizations to act responsibly toward the wider society and the natural environment in which they operate, organizations themselves have adopted a wide range of positions regarding corporate social responsibility. The various organizational stances vis-à-vis social responsibility in free-market economies fall along a continuum, ranging from a low to high degree of socially responsible organizational practices\textsuperscript{159}. The few organizations that take a social obstruction approach to social responsibility usually do as little as possible to solve social and/or environmental problems. In such a case ….. "the organization does stand apart from society and functions best when it gets back to basics, when it is freed of government regulation and constraints and discards social engineering in favor of just plain engineering."\textsuperscript{160} One step removed from social obstruction is social obligation, whereby the organization does everything that is required of it legally but does nothing more. A firm that adopts the social response approach generally meets its legal and ethical requirements and sometimes voluntarily even goes beyond these requirements in selected cases. Finally, the highest degree of social responsibility that a firm can exhibit is the social contribution approach. Firms adopting this approach view themselves as citizens of a society and, as a result, proactively seek opportunities to contribute.


CSR Principles

CSR companies believe that it is important for businesses to be socially responsible to their employees, their customers, and their communities. These are the companies that actively support community projects, that provide money for children’s sports teams, or that develop innovative programs to keep their employees happy and healthy. Businesses that practise CSR make every effort to support their beliefs by adhering to the following CSR principles.

**Figure 4.1**

CSR Principles

1. Adopting fair labour policies a business could choose to pay more than minimum wage and offer flexible hours of employment for workers

2. Protecting the environment a business could help fund environmental programs in their community and could themselves become more environmentally responsible

3. Providing a safe and healthy work environment a business could choose to invest in an employee wellness program that offers on-site daycare or fitness facilities

4. Being truthful in advertising a business could ensure that their advertising does not contain inaccurate or deceptive claims, statements, or illustrations

5. Avoiding price discrimination a business could base its pricing structure on one price, such as the manufacturer’s suggested list price, to avoid confusing consumers

6. Donating to charity a business could make it easy for employees to contribute to charities through payroll plans, and could host an event that donates proceeds to charitable causes in the community
Business ethics and corporate social responsibility concepts have been around for some time. So haven’t most, if not all, businesses already adopted these guidelines? No. The news is filled with examples of unethical and illegal business practices. The sad truth is that too many businesspeople believe that normal business procedures mean dealing with ethics only when necessary, or not dealing with ethics at all.

**Approaches to CSR**

![Figure 4.2: Approaches to CSR](image-url)
A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to nonprofit organizations and communities. Donations are made in areas such as the arts, education, housing, health, social welfare and the environment, among others, but excluding political contributions and commercial event sponsorship.\(^{161}\)

Another approach to CSR is to incorporate the CSR strategy directly into operations. For instance, procurement of Fair Trade tea and coffee.

Creating Shared Value, or CSV is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues and philanthropy. The Harvard Business Review article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* provided examples of companies that have developed deep linkages between their business strategies and CSR.\(^ {162}\) CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but emphasizes the opportunities for competitive advantage from building a social value proposition into corporate strategy. CSV gives the impression that only two stakeholders are important

- shareholders and consumers.

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Many companies employ benchmarking to assess their CSR policy, implementation and effectiveness. Benchmarking involves reviewing competitor initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how others perceive competitor CSR strategy.163

Recently, however, society’s perception of corporate social responsibility issues has commenced to change in response to globalization. The term globalization is perhaps one of the most widely used and least precisely defined concepts in contemporary business. According to Schwartz and Gibb (1999) the term 'globalization' does not refer to a single process but "serves as shorthand for several related processes", namely:

- an increasingly shared awareness across many publics
- a new international financial web
- new open space into which dominating cultures can move
- progress from 'inter-national' to 'global' institutions
- declining importance of geography
- dangerous new linkages possible
- greater speed of events
- trend away from nation-states

whereby …… "shared awareness across publics" highlights the remarkable growth of the contemporary NGO community: non-governmental organizations (NGOs) currently represent millions of

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citizens around the globe, while the new international media can mobilize those millions overnight if it chooses; the "new international financial web" implies that … 'transparency, probity and rule of law are nowadays more important to more people than ever'; "open space for dominating cultures" indicates more and deeper debate over international values; the creation of "global" as opposed to "inter-national" institutions refers to the entrance of new unfamiliar players, the 'stateless corporations', in the business terrain; "declining importance of geography" suggests that the traditional link between production and place, between economy and the nation state is now breaking down, while more and more people all over the world consider themselves stakeholders in decisions made by businesses anywhere; "dangerous new linkages" relates to any number of emerging networks whose impacts the public (rightly) feels unsure of; the "greater speed" at which the world now operates emphasizes that companies that become insulated from their markets or communities can be blindsided by changing attitudes more quickly than ever; finally, the shift of power away from nation-states means that the public in general requires more accountability from other powerful actors, such as business, and expects them to respond directly to the demands of public opinion rather than waiting for that opinion to be mediated by government legislation or regulation.  

Thus, society's perception of corporate social responsibility seems to undergo a phase of fundamental change. A variety of forces - geopolitical, socio-economic, demographic and technological- appear to influence society's changing expectations of business. First, the recent collapse of several communist regimes, such as the former Soviet Union, 

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around the world has led to the development of a new integrated global business environment with market economies being the clear winner. Second, new problems are emerging - shaking up existing assumptions about our world- including: biotechnology and information technology concerns; the ageing of industrial nations; and mass unemployment. Profound technological change always involves economic upheaval and the impact of computerization is likely to prove of equal or even greater importance than that of electrification. Moreover, genetic engineering technologies being explored today raise more complex issues of scientific and social responsibility than corporate decision makers have ever faced.

The population of the industrial nations is ageing rapidly. The proportion over 60 in the industrialized countries that make up the OECD is predicted to rise from less than a fifth in 1990 to a third in 2030. While in one half of the modern industrialized world, continental Europe, more than a tenth of the population of working age is currently unemployed -- and mass unemployment is here to stay as technology is making more and more workers obsolete. The combined effect of rapid technological progress, ageing and unemployment exerts an unbearable pressure on the kind of welfare state almost all the Western European nations have had in place since World War II, as the proportion of

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170 Ibid., pp. xi, xv and 238.
population that pays tax - both of working age and still employed - is continually thinning.

A shrinking world, radical technological advancement and the unavoidable end of welfare resulted in enhanced uncertainty and at the same time led to a realization that "problems are increasingly global and demand solutions that presuppose a framework of values acceptable everywhere"\textsuperscript{171}. Cultures around the world thus converged towards adopting some core values, comprising: truthfulness; fairness; freedom; community; tolerance; responsibility; and respect for life\textsuperscript{172}. These universally shared values led to establishing international principles regarding the ethical responsibilities of contemporary business to society - the Caux Round Table (CRT) Principles of Business - endorsed by the overwhelming majority of the world's nations\textsuperscript{173}. This recognition of fundamental international rights and corresponding responsibilities was further codified into a global corporate code of conduct -- grounded on the United Nations Universal Declaration of Human Rights (1948); the European Convention on Human Rights (1950); the Helsinki Final Act (1975); the OECD Guidelines for Multinational Enterprises (1976); the International Labour Office Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977); and the United Nations Code of Conduct on Transnational Corporations (1972) -- covering five major business areas: employee practices and policies; basic

\textsuperscript{172} Ibid.
human rights and fundamental freedoms; consumer protection; environmental protection; and political involvements\textsuperscript{174}.

Last but not least, new relationships are currently emerging among the traditional social partners. A major development in this respect has been a significant shift in NGO strategy. For years non-governmental organizations (NGOs) focused on changing national government policies, while later they expanded their focus to include intergovernmental or supranational organizations such as the United Nations, the Organization of American States and the European Commission\textsuperscript{175}. Recently however NGOs have begun paying increased attention to the general subject of business and social responsibility, moving away from the traditional "NGO-government" relationship toward a dynamic "NGO-corporate" relationship. The importance of this development has been highlighted by Peter Sutherland, former head of the GATT: "the only organizations now capable of global thought and action - the ones who will conduct the most important dialogues of the 21st century - are the multinational corporations and the NGOs" \textsuperscript{176}.

\textbf{Business Ethics and Corporate Social Responsibility in the New Economy}

Just as the industrial economy gradually evolved from the agricultural economy, so the industrial economy is currently giving way to the emerging digital economy. In the new economy technology becomes the dominant factor of wealth generation "rather than land, labor


\textsuperscript{176} Ibid., p. 139.
and particularly capital", whereas "information and its proper management through information technology are making the difference and separating the winners from the losers."\textsuperscript{177}

In the digital environment the balance of power shifts inexorably from the manufacturer to the consumer. To be competitive in the new economy companies must offer products and services that are specifically customized to meet the needs of individual consumers\textsuperscript{178}. This implies that "businesses in the digital age must employ product development processes that interact dynamically with customers; that they perform a more constant-and precise-monitoring of overall market trends; that cycle times get dramatically reduced; that raw materials are procured rapidly and in a cost-effective manner; and that distribution methods that suit the customer's, not the company's convenience are put into place. In short, the free flow of information made possible in the digital age will put the customer at the center of business priorities and strategies"\textsuperscript{179}.

Consumer empowerment in turn implies a 180-degree change in business strategy from a 'make-and-sell' to a 'sense-and-respond' organization ..."an adaptive system for responding to unpredictable requests. It is built around dynamically linked sub-processes and relies on economies of scope rather than economies of scale. The people in a sense-and-respond environment are empowered and accountable, and spend their time producing customized outcomes in accordance with an adaptive business design"\textsuperscript{180}. Sense-and-respond organizations are thus customer-
driven, process-focused and employee-involved\textsuperscript{181}. Due to the considerable increase in uncertainty, enhanced emphasis is being placed on flexibility, change and hence adaptive, entrepreneurial cultures stressing that "customer value is the only value that matters"\textsuperscript{182}.

At the same time -responding to society's changing expectations of business- a growing number of companies seem to take pride in corporate citizenship, committing themselves to social responsibility. Companies that have received Corporate Conscience Awards in recent years include Kellogg, Sainsbury, Hewlett-Packard, Pfizer Pharmaceuticals, and Fuji Xerox\textsuperscript{183}. A most notable evolution in this respect has been the development of Social Accountability 8000 (SA-8000) - a global standard "providing a framework for the independent verification of the ethical production of all goods, made in companies of any size, anywhere in the world" .... a major opportunity for companies "to demonstrate their commitment to best practice in the ethical manufacture and supply of the goods they sell"\textsuperscript{184}. SA-8000 involves auditing companies by independent assessors on a wide range of issues, comprising: child labour, health and safety, freedom of association, the right to collective bargaining, discrimination, disciplinary practices and compensation\textsuperscript{185}. Organizations

\begin{footnotes}
\item[185] Ibid, p.2.
\end{footnotes}
meeting the standard earn a certificate attesting to their "social accountability policies, management and operations"\(^{186}\).

Business behaviour has always had a significant worldwide impact - in the eighteenth, nineteenth and twentieth centuries, and even before then. In the industrial era however political power generally surpassed economic power since governments were able to control their national economies\(^{187}\). The effects of globalization, though, have led to a considerable erosion of power traditionally exercised by national governments. In view of the decline of the nation-state "it has become government, as well as corporate, policy to let the market decide"\(^{188}\). Indeed, the International Labour Organisation (ILO) has repeatedly underlined that public opinion will attain increasing importance over the next few years … "as will the sanction of the market"\(^{189}\).

The role played by public opinion in shaping corporate behaviour is, of course, not new. What is new is the empowerment of the customer in the new economy, as a result of the undergoing revolution in information and communication technologies. Consumers are nowadays informed and use this information to wield power over companies.

Hence, companies experiencing crises as a result of perceived irresponsible social behaviour include Nestle, Royal Dutch/Shell, Union Carbide, Texaco and Nike\(^{190}\). Responding to enhanced customer information-coupled with consumers' increasing ability to react-

\(^{186}\) Ibid., p. 3.
\(^{189}\) Ibid., p 140.
\(^{190}\) Ibid., pp. 25-65.
companies may be expected to develop even stronger cultures of responsibility, proactively seeking to increasingly honour their moral obligations to society in the 21st century.