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# Ethics and corporate social responsibility: Are they two sides of the same coin?

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### Abstract

In the era of socially enlightened and knowledge empowered society, there is a greater emphasis on the businesses to be ethical as well as socially responsible. There is growing awareness that the resources businesses use, to create their fortunes are not free, so they must repay to the society by empowering the downtrodden and creating value-based structures. In India, though it is now made mandatory for certain set of companies to spend on social activities, companies highlight these activities to create a good public image and build brand value. In the light of recent cases of corporate governance failures. The study examined the ideas of corporate social responsibility and business ethics and established their connection. The stakeholder aspect of corporate social responsibility is the main focus of this study. And posits that corporate social responsibility as is practiced in India today is just to build goodwill. The paper infers that Indian corporates may be socially responsible to some extent but falls short on ethical standards.

**Keywords:** CSR, triple bottom line, stakeholders

### Introduction

Corporate Social Responsibility is addressing of social, economic and environmental concerns by the companies. Now a days a lot of focus is there on companies fulfilling their social responsibility. Companies are also spending a reasonable amount on undertaking these activities. Companies are highlighting CSR expenditures even in their Annual Reports. However, the concern is that being socially responsible is not enough. Ethics which means doing what is ought to be done is also becoming area of focus. A company cannot be completely socially responsible if it is unethical in its dealings. It cannot be both immoral and socially conscious at the same time.

### Objectives

The study is carried out with the following objectives:

1. To comprehend the meaning of the terms "ethics," "code of conduct," and "corporate social responsibility";
2. To comprehend the correlation between Ethics and Corporate Social Responsibility.

### Research Methodology

The study uses the case study method. Recent cases of corporate governance failure are examined to determine how ethics and corporate social responsibility relate to one another.

### Ethics

The term ethics has Greek origin it is derived from word ethos meaning human character. Ethics are accepted standards of human behavior. It is quite similar to what we are taught in moral science. Like help the needy, be honest, do not cheat, do not steal. Ethics is what helps us differentiate between good and bad, right and wrong, just and unjust. Ethics is not about how we act rather how we ought to act. It is about being right. Ethics are picked by an individual from his surroundings, family and peer groups. Ethics have developed over the years based on the societal values, religious writings and philosophical thoughts. Ethics may slightly vary across cultures and religions and regions like in India it is considered unethical to send the elderly to old age home whereas in western countries it's a norm.

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However, the broad parameters of ethics do not change, eg: accepting bribe is considered bad everywhere.

It's not easy to define ethics. It's a very wide term. Although a number of authors and philosophers have tried to define ethics, the best definition that captures the essence of ethics is given by Immanuel Kant, a German Philosopher. He pointed that when a man injures the rights of others, he is guilty under the law. If he just considers doing so, he is culpable in terms of ethics (Warrier, 2021) [8].

The term Business Ethics consists of two words -Business and Ethics. Business is an artificial entity, so cannot have ethics of its own. In any organization it's the people, individuals who are the heart, brain and soul of the entity. So, it's the ethics of the individuals working in the organization that make up business ethics. Business is a commercial entity involved in the production, sale and distribution and exchange of goods and services. Business ethics requires not only the top management but everyone in the organization involved in the organization to be ethical. So, all the people in the chain have to be ethical for a business to be ethical in true sense. It permeates the entire organization.

### Code of Conduct

Code of conduct is the formal statement issued by the company that guides the people working in the organization as to how to act, analyze and make decisions. It generally refers to dos and don'ts for the both the management and employees. It addresses issues like interaction with competitors, servicing customers, accepting corporate gifts, conflict of interest, and way of interaction among employees in the organization.

In India, as of now not every company displays code of ethics but with increasing awareness about ethics more and more companies are now focusing on preparing and displaying code of ethics.

### Corporate Social Responsibility

It means Social Responsibility of the corporates.

Bowen (1953) [1] known as father of Corporate Social Responsibility defined it as the duties placed on businessmen to follow certain paths of action, adopt certain policies, or make certain decisions that are beneficial in light of our society's goals and values.

The term further has been defined and redefined numerous times since then.

Carroll (1979) [2] summed up business social responsibility as including all of society's expectations of an organisation at a given time, including legal, ethical, and economic ones. Here, Carroll basically focused on fulfilling legal, ethical and economic responsibility whereas responsibility towards society is referred as discretionary.

The definition further evolved and then came stakeholder theory. The stakeholder theory proposed by Freeman (1984) [3] says company should look after the interest of stakeholders rather the shareholders. The term stakeholder includes customers, employees, shareholders, general public, government and society at large. The term stakeholder is very wide and covers almost each and every sector of society.

Another definition of CSR is given in form Triple Bottom Line, also referred to as TBL. The term was coined by John Elkington in 1994 [4]. According to the author, rather of concentrating on the single bottom line i.e. earnings a

company should focus on three bottom lines:

**People, the Societal Aspect**

**Planet, the Environmental Aspect**

**Profit, the Economic Aspect**

The triple bottom line (TBL) outlines that corporates should not only be concerned about the economic aspect (profit) but also should look after on societal aspect (people) and environment aspect (planet). The corporate performance should be measured not only on profit basis but also on the basis of impact it has on environment and society.

This definition is much narrower than stakeholder definition but it is the one closer to the concept CSR it is practiced today.



Fig 1: CSR-Triple Bottom Line Model

### Recent cases of Corporate Governance Failures

**Satyam Computer Services:** started by Ramalinga Raju with just 20 employees had 53000 employees and \$ 2 billion revenue in 2008. It was listed on both BSE and NSE. In 2010 Data Quest awarded IT man of the year award to Ramalinga Raju. In 2005 the Global Institutional Investors ranked it third in Corporate Governance. The London based Council for Excellence in Corporate Governance awarded it Golden Peacock Award in Corporate Governance in 2008. In 2009, Satyam fraud came into limelight when the board cancelled the Maytas deal, a real estate company formed by Raju to divert funds of Satyam. Investigations revealed that Satyam has been showing fake inflated invoices and to substantiate that even bank statements were manipulated. This went for number of years but not even the auditors of Satyam could detect it. This raises a question mark on not only the ethics of Ramalinga Raju, other top officials who manipulated the accounts but also the auditors who failed to identify fake invoices and manipulated bank statements.

**The Kingfisher Airlines:** Owned by United Breweries group was established in 2003. It started its domestic commercial operations in May 2005. In 2007, it acquired Air Deccan Airlines and in 2008 started international operations. Kingfisher airlines incurred huge losses every year, which kept on increasing. Kingfisher Airlines Ltd reported a net loss of INR 1,647.22 crore for the fiscal ended March 2010 (Sanjai, 2018) [7]. Kingfisher Airlines,

did not even declare its financial results for the quarter ended March 2010. Despite of this, in 2010 itself Kingfisher won the award for Best Corporate Social Responsibility (CSR) Report at the GREEN AWARDS. As discussed in "SBI Classifies its Kingfisher Airlines Exposure as NPA" (2013) [8], SBI Bank declared the loan given to Kingfisher worth INR 1,457.78 crore as NPA. In Sept 2012, pilots, engineers and other ground staff went on strike for non-payment of salary. In Oct 2012, Director General of Civil Aviation (DGCA) suspended the flying license of Kingfisher for not keeping its professional, security and ethical standards for its passengers as well as its employee and stakeholders. Failure of Kingfisher is one of the biggest failures in corporate governance in the India after Satyam Scam.

**Gitanjali Gems:** Was incorporated in 1986 by Mehul Chowksi as a private limited company and then became a deemed public limited company in 1991. The company was subsequently converted to Gitanjali Gems Limited, a public ltd company in 1994. In March 2010, deputy manager, at PNB Mumbai Branch named Gokulnath Shetty along with another official Manoj Kharat fraudulently issued LOUs to Gitanjali Gems Ltd and various firms owned by Nirav Modi without following prescribed procedure or making entries in the banking system, thus avoiding detection of transaction. When Nirav Modi companies asked for LOUs for raising buyers' credit after the retirement of the PNB employee involved in the scam, the Punjab National Bank sought 100 per cent cash margins for issuing LOUs. This was contested by the Nirav Modi firms, saying they had availed of the facility from as early as 2010. Then the entire fraud came into limelight. The PNB bank has the highest exposure to Gitanjali Gems at around INR 11,400 crore followed by ICICI Bank, the second largest with an exposure of over INR 400 crore.

Although wrong was happening since 2010 in Gitanjali Gems and other Nirav Modi's firms, then also in 2013, Gitanjali Gems received the B. G. Deshmukh Corporate Social Responsibility Special Jury Award from MCCIA (Maharashtra Chamber of Commerce Industry and Agriculture) for its various CSR Activities. Gitanjali Gems was also honored at CNBC TV 18 Emerging India Awards 2013.

### Business Ethics and Social Responsibility

All above three firms had impressive balance sheets and good track records. All of them were leaders in fulfilling their social responsibilities and were even awarded at various forums. But it appears from their debacles that they were only carrying out these CSR activities as an eye wash exercise. On one hand, they were manipulating accounts, misusing shareholders money, defaulting in servicing bank loan and on another hand winning laurels for being a good corporate.

What was missing in their social responsibility was ethics, ethics of being a good citizen, of good individual and a good corporate. Business ethics and corporate social responsibility are not synonyms. Corporate social responsibility without ethics has no meaning. It is just philanthropy or may be window dressing to hide wrong doings in many cases.

Business ethics covers all ethics related aspects across all the functional areas of the management. It runs throughout

the supply chain process. However, CSR just focuses on responsibility of corporates towards society and now to some extent to environmental issues also.

In fact, corporations have responsibilities to number of stakeholders that include the environment, nearby communities, staff, and customers. But in actual practice, CSR just means corporates giving back to society. Companies are carrying out CSR activities not because they feel concerned for the underprivileged sections or they are concerned about protecting the environment, but because it is mandated by the law. In India, it has become a mandatory philanthropy. In fact, corporate social responsibility (CSR) is being utilised as a marketing strategy to improve the company's reputation. This highlights the fact that social responsibility and ethics are two different but interrelated concepts.



**Fig 2:** Corporate Social Responsibility and Business Ethics: A Relationship

Corporate Social Responsibility without ethics cannot achieve anything good. A company which is fulfilling its social responsibility is not necessarily ethical. However, business which is ethical will be more enlightened of its responsibility towards all *viz*: customers, shareholders, employees, society, government and environment. An ethical company will always be more socially responsible. So, for a company to be truly socially responsible, it has to be ethical first. This brings us to the conclusion that business ethics is a wider term than social responsibility and CSR is just a subset of Business Ethics. Being ethical serves all the purpose. So a corporate should try and achieve highest standards of ethics.

### Conclusion

We need to focus not only on how Corporate India is carrying out social responsibility programs but also how they are making money. The question is to see whether they are ethical in their dealings, conduct or not. What really matters is being ethical. Ethics will itself lead a business towards social responsibility. As enlightened customers, citizens, employees we must boycott companies which engage in unethical practices. Also, social audit of the company should be carried out to find the social impact of their CSR

activities. This will put pressure on corporates to actually serve the society and not use it as a mere marketing tool. Being ethical does not demand much. It just means being fair in dealings with all the stakeholders. Both CSR and ethics has to co-exist. Business ethics lays the foundation for good corporate culture. Unless and until Business Ethics is inculcated in corporate culture, CSR cannot be implemented in true spirit. In actuality, a firm can attain a higher degree of social responsibility the more morally upright it is.

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