

## Conceptualization of the Role of Ethics and Corporate Social Responsibility in Business Operations: A Review

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**Abstract** — Business organizations constantly strive to upgrade their established systems to maximize their profits. It is not uncommon to find ethical flaws in the strategic interventions adopted by companies to attain this goal. Many a time, it raises questions on business ethics and social responsibilities of a company. Business corporations depend on employees for their personal growth. In turn, they play an important role in improving the standards of society. Hence, the contribution of the company to society is undeniable. Although an old concept, business ethics and Corporate Social Responsibility (CSR) are increasingly addressed and implemented in the past two decades to improve the connection between corporate and social aspects. This practice is often conjectured as a hindrance to the growth and development of businesses. However, in reality, both these concepts when used smartly can redefine the progress of an organization. The available literature in the form of research articles, journals, magazines, surveys and private corporate sources has given significant insights to the role of ethics and CSR in success of a business. In this review, we describe the important characteristics of CSR programmes and business ethics to intercept the negative notions that exist in many organizations.

**Keywords:** Business development, Business ethics, Corporate Social Responsibility, Profit, Organization.

### I. INTRODUCTION

The primary objective of any business strategy is to make profit. These strategies are often challenged by the ethical practices of a business and confounded by social responsibilities. In order to achieve a balance between obligatory profitable outcomes and imperative social responsibilities of a business, it was necessary to define the standard rules and guidelines for business processes. In this effect, the terms 'Corporate Social Responsibility (CSR)' and 'Business ethics' was first described by an American economist Howard Bowen (in 1953) and an Academician Norman Bowie (in 1974) respectively [1, 2]. However, the idea of CSR and business ethics was proposed much earlier by great philosophers and businessmen in the 1900s [3].

In the progressive global business development, a 'Triple Bottom Line (TBL)' approach is followed to attain maximum profitability while addressing the environmental and social expectations of share- and stake-holders. The TBL addresses the economic, environmental as well as social responsibilities of a corporation. The CSR programme conceptualizes the TBL approach as a key principal for management of business operations. The TBL is also recognized as an international standard for CSR stated under ISO 26000 guidelines of India's New Companies Act 2013. Besides TBL, this act also defines other key principles of socially responsible behaviour of companies. They are guidelines for business processes based on accountability, reliability, transparency, business ethics, human rights and

sustainability [4]. According to this act, a threshold has been set for different business set-ups. Based on these thresholds, the companies are required to spend at least 2% of their average net profit (preceding 3 financial years) on CSR activities [5].

In simple terms, CSR is a sustainable organizational strategy that benefits the company through benefitting the society. According to online literatures, business ethics and CSR strongly overlap in terms of definition, principals and practice. Also, many a time, the business ethics is confused as a part of CSR. Although figuratively it may be justified, business ethics literally portray company's action within the organization whereas CSR is a tool to improve public image. The business ethics encompass the bylaws, legal formalities, human behaviour, expectations, code of conduct, professionalism, intellectual property, morals and reliability, in addition to the social responsibilities of a company [6]. Hence, although used as individual terms, 'Ethics' and 'CSR' together is responsible for gaining the trust of share- and stake-holders, and preventing legal actions that may drain the businesses' economy. In the long run, both ethics and CSR allows a company to stand out and create a positive public image [7].

## II. HISTORICAL COMPONENTS THAT LED TO CONSTRUCTION OF GUIDELINES FOR MODERN CSR AND BUSINESS ETHICS

Various aspects of CSR and business ethics are described in the literature. We reviewed the impact of such aspects on business outcomes to provide an overview of the importance of cumulative strategies of CSR programmes including business ethics.

In the year 1959, Selekmán published his philosophy on the '*Morals of business management*' as an evolutionary response to labour expectations and environment demands [8]. Although not exclusively mentioned in literature, similar articles published later on similar principles initiated the building of ethical guidelines for businesses.

In 1963, McGuire studied the business policies and their regulatory controls, and compared them with the changes in the social and economic aspects of the society. He was the first scholar to propose the '*Responsibilities of a business organization*'. In his article, he conveyed the theory of 'Social obligations' of corporation, and imperatively concluded that

business responsibilities include social welfare and reformation of the society [9]. Similar conclusions were derived by Walton (1967) who followed the same ideology [10]. He also published an update on his views in the form of a debate on ethical reformation of society as an obligation of business organizations in 1982 [11].

In the 1970s, the concept of '*Business ethics*' was introduced in the curriculum of management institutions in the U.S.A. This was soon followed by the foundation of a society in the name of business ethics in 1980s. In this regard, Richard George presented a detailed history of business ethics in his article and book published in 1987 [12] and 1993 [13] respectively.

As early as 1973, the '*Signalling theory*' was proposed by Michael Spence to decrease the knowledge gaps between the organization and employees. Over the years this theory has been adapted to define other aspects of business including human resources and finances [14]. More specifically, Csikzentmihalyi (1975) defined the theory of 'flow' as the state in which there is little distinction between the self and environment. Through this theory, the above study described the necessity of '*Employee engagement*' in an organization to improve their performance within the company. In turn, this benefits the organization through trust, nurturing, and an indiscriminate two-way relationship between the employer and employee. The theory involves physical, cognitive and emotional engagement of employees to provide them with job satisfaction [15].

In 1984, Edward Freeman addressed the morals and values of an organization through the '*Stakeholder theory*' in his book. The guidelines and framework of business operations suggested in this book are highly similar to the presently recognized ISO 26000 standards of CSR. In addition, the book describes critical business ethics as a part of fundamental objective of a business. The author also argued in his book that creating a balance in interests of the stakeholders and corporate organizations can undoubtedly maximize the benefits across both spectrums [16].

In the year 1990, Simon Barrow introduced the concept of '*Employer branding*'. In simple terms, it is an extended attribute to employee engagement where the management not only seek to retain the consumers but also attract, engage and retain talented employees by providing them with perspective benefits of competition and trust [17].

In the following year, Donna Woods presented his views on the much needed '*Philanthropic nature*' of business organizations. However, the very first example of

organizational philanthropy was marked by Andrew Carnegie and John D. Rockefeller who donated their fortune for educational, religious and scientific causes in the 1800s [18].

In 2004, Mazurkiewicz described the 'Environmental aspects' of CSR. The study presented an intellectual view on effective and efficient use of natural resources, overcoming environmental impacts of global warming, waste management and voluntary engagement of business corporations to preserve the natural resources of the country. Thus, briefly, it covered most of the environmental responsibilities of an organization [19].

Thus the concepts, ideologies and theories related to CSR and business ethics were introduced at different times and in different places. The potential and necessity of reinforcing these concepts led to the introduction of section 135 in the new companies act, 2013, in India; making it the first country in the world to have a mandatory CSR contribution legislation. Other countries like Denmark, U.K, U.S.A, South Africa, France and China also follow the ISO 26000 guidelines established in 2010. Gradually, these and other countries are also adopting to comply with mandatory CSR obligations, in the form of reports, for social activities [20].

### III. SYMBOLIC CHARACTERISTICS OF CSR AND ETHICAL POLICIES OF A BUSINESS

In order to materialize the concept of CSR, it is important to have a cumulative understanding of business ethics, employee and customer engagement, innovation, brand differentiation and optimized productivity. Failure to understand these individual parameters or simple implementation of a CSR program cannot benefit a business operation in any way [21]. For instance, just holding on to the values of sustainability is reason enough to drive numerous development efforts for the business. Besides, it fulfils the environmental and social responsibilities of a company. In addition, it naturally attracts innovative minds, engages the employees and motivates them to contribute to the business' success through their discretionary efforts [22]. Thus, implementing a CSR programme can convert today's demand into an unending opportunity. In another instance, if cost-cutting is prioritized at every stage in a business to maximize a company's turnover, logically they are faced with ethical dilemmas like the use of cheaper and/or environment non-friendly substitutes. In such scenarios, the ethics are compromised more than often. It also becomes difficult to

retain customers as well as employees. To overcome such situations and consider the primary goal of a business i.e. profit, the CSR programmes prioritize the 'optimized productivity' strategies over mere 'cost cutting'. It is important to understand here that although cost cutting is a part of optimized productivity, the latter confines all ethical criteria of a business process [5].

Another characteristic of CSR programmes is that it inculcates the habit of comprehending the future implications of the actions taken today by the company. The long-term planning strategies take into consideration the customer satisfaction, society needs, and the changes in cultures and trends. This is achieved through continuous improvisation of marketing strategies, trend analysis and seeking market opportunities [4, 5].

A number of major as well as minor social issues are addressed under CSR programmes by business corporations in the form of outreach activities. Few examples of such initiatives include promotion of health, education, human rights and gender equality, eradication of poverty, hunger and chronic preventable diseases like Polio and Hepatitis, donation to government entities and minority trusts, and promotion of sustainable processes [5, 23].

Any business professional would realise the immediate and long term benefits of above undertakings on corporate reputation with customers and stakeholders. Besides, compliance with environmental and other standards results in an improved response from investors.

### IV. REASONS FOR INCREDULITY TOWARDS CSR AND BUSINESS ETHICS

Business corporations work under constant high pressure and strict schedule. Their course of events is not as straightforward as represented through examples of sustainability and optimized productivity in the above section. A business' real predicament may arise on moral grounds even though they fulfil all legal formalities [6]. Every action of a business process is not obligated by a single individual. Instead, they undergo department-wise verification process by the business entity. Moreover, some corporate organizations believe that social organizations should be obligated to carry out outreach activities. Hence, it becomes difficult to weigh the interests of the society on the same scale as business obligations. This is the main reason for an extended argument on CSR

programmes being a distraction from business' basic goal of economic predominance [24]. In fact, several studies also indicated the negative impact of CSR on business turnover. However, an econometric study based on empirical analysis of industrial data, carried out in the year 2000, claimed that the CSR has a neutral impact on financial outcomes. In addition, they indicated that previous studies, on negative impact of CSR on business, were majorly based on inaccurate empirical analysis of corporate data [25]. This led to the new era of business endeavors embracing CSR and ethics in corporate operations.

Another common reason for incredulity is ignorance or lack of proper planning and analysis. Sometimes, the basics of business like documentation and monthly/annual SWOT analysis may be overlooked, especially in start-up organizations. This leads to miscalculation of business potential in terms of finances and expansion. Thus, social responsibilities occur as a burden [26]. In contrast, some business genuinely lacks funds which make it impossible to undertake CSR outreach activities. However, in such cases, the management can improve customer and employee engagement activities for mutual benefits. It is a fact that the policies of an economically powerful business significantly impact the society. Hence, it is only fair that the degree of economic power of a business justifies its involvement in the reformation of societies. This can be achieved through one of the four defined ways including sustainable efforts, philanthropy, ethical labor practices and volunteering [23].

Besides the above factors, one of the most convincing criticisms towards CSR was presented by John Dudovskiy in 2012 [27]. He highlighted business facts to disregard CSR as an obligatory measure. In brief, these facts can be summarized as follows:

1. CSR activities would introduce and encourage political perspectives in the business world. This could become dangerous since it will allow the projection of a positive image by companies by contributing negligibly to the society. This would also increase unethical and illegal activities in the name of business and power.

2. The validity of CSR is mediated through company's profit statement. In the long run, this will provide an upper-hand to multinational corporations, while smaller businesses will suffer from neglect and discouragement from stakeholders.

Considering the debate that favours or criticizes CSR activities, both sides propose valid reasons for their view

points. Hence, it is largely a matter of how an organization weighs their business perspectives, development stage, interaction with the environment and society, business morals and ethics that relate to their stand on CSR and business ethics.

## V. CSR INITIATIVES OF INDIAN COMPANIES

As reasoned in the previous section, the guidelines and standards defined legally for business administrations may be able to impose discipline in an organization. However, it cannot influence an individual's cognitive attitude to accept or reject a hypothesis. For this reason, some of the top Indian companies have not implemented CSR programmes for business development and outreach activities. On the other hand, some Indian companies only focus on the potential of CSR to attain 'employee engagement' and 'employer branding'. In contrast several Indian companies have intellectually incorporated CSR programmes to contribute to the social welfare of the society. Few representative examples of CSR initiatives taken by famous Indian companies are represented in Table 1 [28]. Overall, it is estimated that approximately thirteen thousand seven hundred crore INR shall be prescribed for CSR programmes in 2021-22 on petrochemical, finance, mining, software and energy related business sectors. The main players in this field are Tata Consultancy Services Ltd., Reliance Industries Ltd., HDFC Bank Ltd., Mahindra & Mahindra Ltd., Hindustan Unilever Ltd. and Infosys Ltd. [29].

**TABLE 1: CSR INITIATIVES OF INDIAN COMPANIES**

Indian Companies	Location	Company Description	CSR budget	CSR activities
Infosys Ltd.	Bangalore, Karnataka	Global leader in technology services and consulting	Rs. 360 crore in the year 2019-2020	<ol style="list-style-type: none"> <li>100 bed quarantine set-up for COVID-19 relief at Narayana Health City.</li> <li>182 bed quarantine set-up for COVID-19 relief at Bowring and Lady Curzon Medical College &amp; Research Institute.</li> </ol>
Mahindra & Mahindra Ltd.	Mumbai, Maharashtra	Largest Indian multinational automotive manufacturing corporation	Rs. 93.50 crores in the year 2018-2019	<ol style="list-style-type: none"> <li>'Nanhi kali' initiative for free education for girl child in 1996.</li> <li>Empowerment of socially backward families.</li> <li>Collaboration with 'Naandi foundation' that feeds over 1.3 million government school children every day.</li> </ol>
Tata Chemicals Ltd.	Mumbai, Maharashtra	Indian global company specializing in chemical manufacture, crop protection and specialty chemistry products	Rs. 21.39 crores in the year 2019-2020 as documented report and an additional 37.81 crores on community development projects	<ol style="list-style-type: none"> <li>Wildlife Conservation.</li> <li>Rural development</li> <li>Sustainability programmes</li> </ol>
ITC Ltd.	Kolkata, West Bengal	Indian multinational conglomerate company	Rs. 326.49 crores in the year 2019-2020	<ol style="list-style-type: none"> <li>Vocational training</li> <li>Women empowerment</li> <li>Supplementary education</li> <li>Farmer empowerment through agricultural interventions</li> <li>Creation of large forestry and water resources</li> <li>Investing in renewable energy sources</li> </ol>
Wipro Ltd.	Bangalore, Karnataka	Indian multinational conglomerate company	Not indicated (More than the mandated 2%)	<ol style="list-style-type: none"> <li>Primary healthcare projects through 6 projects active in four states benefitting more than 70,000 people.</li> <li>Community awareness towards self-reliance and health priorities.</li> <li>Disaster management during Floods, earthquakes and cyclones</li> </ol>
Hindustan Unilever Ltd.	Mumbai, Maharashtra	A subsidiary of Unilever specializing in foods, beverages,	Rs. 142 crores in the year 2020-21	<ol style="list-style-type: none"> <li>Water conservation</li> <li>Health and hygiene</li> <li>COVID-19 relief initiatives</li> </ol>

		cleaning agents, personal care products, water purifiers and other fast-moving consumer goods		4. Contribution to government funds
Bharat Petroleum Corporation Ltd.	Mumbai, Maharashtra	Indian government-owned oil and gas corporation	Rs. 4.27 crores in the year 2020-21	<ol style="list-style-type: none"> <li>1. COVID-19 relief initiatives</li> <li>2. Contribution to government funds</li> <li>3. Swachhta Pakhwada 2020 initiatives</li> <li>4. Quality education initiatives</li> <li>5. Waste management initiatives</li> <li>6. Health and hygiene initiatives</li> </ol>
Indian Oil Corporation Ltd.	New Delhi, India	Indian government corporation of Petroleum and Natural Gas	Rs. 490.60 crores in the year 2018-19	<ol style="list-style-type: none"> <li>1. Utilize renewable energy as sustainability initiative</li> <li>2. Retail outlet solarisation</li> </ol>

## VI. CONCLUSIONS

The concepts of CSR have been constantly emerging during different phases of history. The business ethics, on the other hand, has remained a standard over the years. When put together, they integrate into business operations and strategies to allow development of innovative concepts that comply with social and environmental responsibilities of companies towards the society. Besides, it presents a competitive edge to the organization against other companies. It is also important to comprehend that every business set-up has their specific strong and weak points. Hence, it is impossible to standardize CSR strategies for every business organization. Also, designing and implementing a new initiative is time consuming, and require proper planning, managing systems and labour. This can result in extended phases of gap in profitable returns. More precisely, CSR and business ethics should be viewed as a tool implemented in long term planning strategies of companies to gain benefits like customer satisfaction, brand and corporate image, market share and community presence.

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