

# **BUSINESS ETHICS AND SOCIAL RESPONSIBILITY**

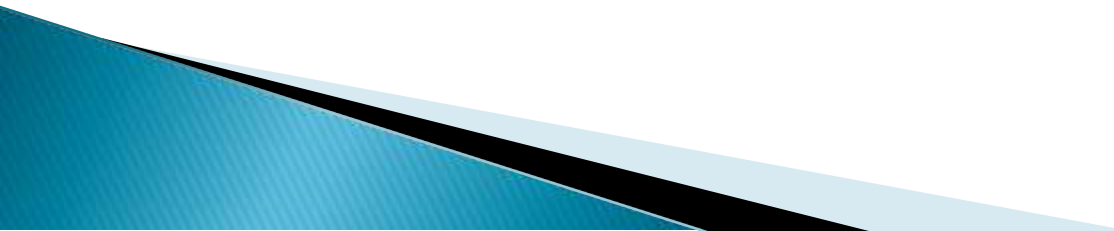
UNIT - 3



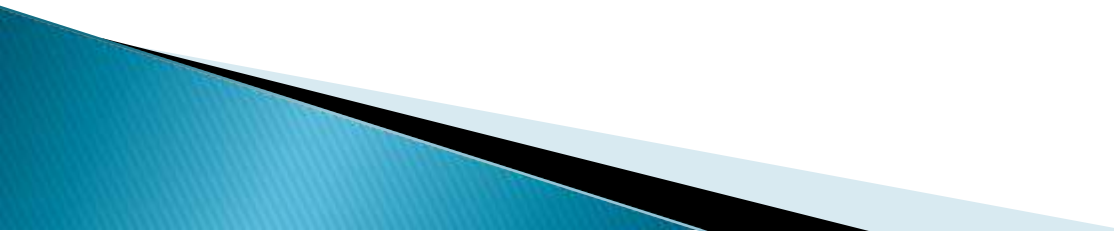
# Learning Outcomes

- ▶ Ethical issues in management, the roots of unethical behavior, philosophical approaches to ethics, social responsibility of business and arguments for social responsibility and Friedman doctrine.

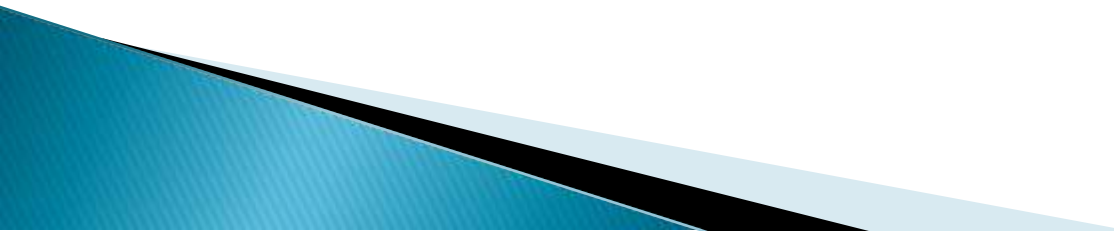
# Concept of ethics and business ethics

- ❑ Ethics commonly refers to a set of rules or principles that define right and wrong conduct.
  - ❑ Ethics reflects beliefs about what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behavior.
  - ❑ Business ethics refers to organizational standards, principles, sets of values and norms that govern actions and behavior of an individual in the business organization.
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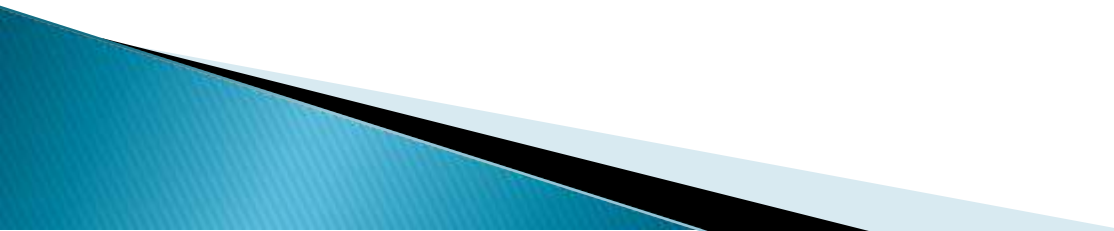
# Importance/Significance of Business Ethics

- ❑ Promotes goodwill and image
  - ❑ Good relationship with stakeholders
  - ❑ Less government intervention
  - ❑ Promotes competition
  - ❑ Promotes social responsibility
  - ❑ Improves working environment
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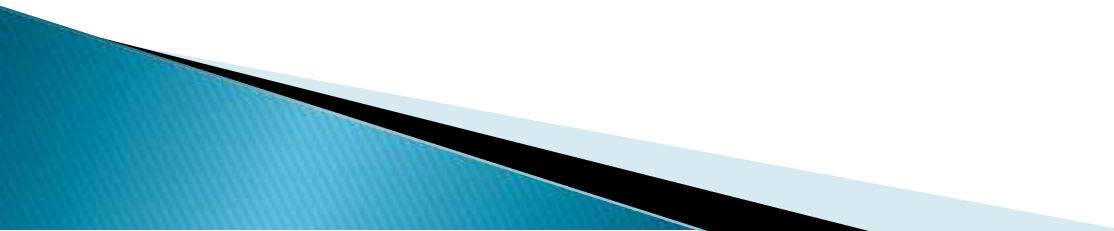
# Ethical Issues in Management

- ❑ Self-dealing
  - ❑ Information manipulation
  - ❑ Anticompetitive behavior
  - ❑ Opportunistic exploitation
  - ❑ Substandard working conditions
  - ❑ Environmental degradation
  - ❑ Corruption
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# Ethical Standards/Criteria for Ethical Decision Making

- ❑ Compliance
  - ❑ Promote good and reduce harm
  - ❑ Responsibility
  - ❑ Respect and preserve rights
  - ❑ Promote trust
  - ❑ Build reputation
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# The Roots of Unethical Behavior

- ❑ No codes of ethics
  - ❑ Lack of worldwide standard
  - ❑ Difference in value
  - ❑ No well-developed personal sense of ethics
  - ❑ Power
  - ❑ Loyalty
  - ❑ Unrealistic performance goals
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# Philosophical Approaches to Ethics

## ❑ Utilitarian Approach

- Proposes that actions and plans should be judged by their consequences

## ❑ Individual Rights Approach

- Humans have fundamental rights and dignity

## ❑ Justice Approach

- Decision makers must be equitable, fair, and impartial in cost & benefit distribution



## ❑ Kantian Approach

- You can do only that which you allow everyone to do to you.
  - A person's action is ethical only if that person is willing for that same action to be taken by everyone who is in a similar situation.
  - A person should never treat another human being simply as a means but always an end.


## ❑ Virtue Approach

- Ethical actions are consistent with certain ideal virtues for the development of humanity.

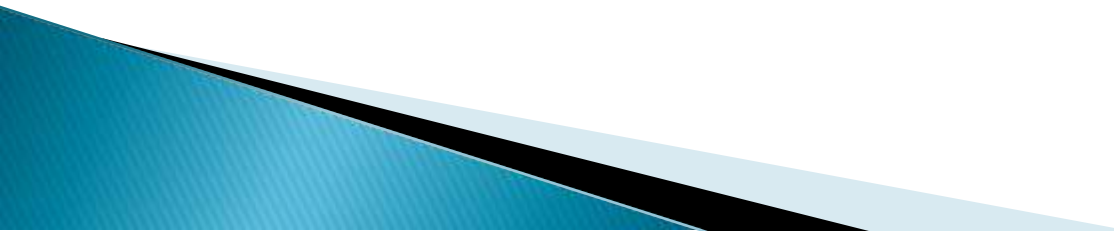
## ❑ Commonsense Approach

- All the ethical approaches are good under different and specific situations.


# Corporate Social Responsibility of Business

- ❑ Social responsibility is the obligation of decision makers on behalf of organization, to take decision that assures actions, protect and improve the welfare of the society along with their own interest.
  - ❑ It implies safeguarding the interest of stakeholders of the entire society such as investors, customers, employees, government and community.
  - ❑ In other words, it is an approach of the management towards building a long term relationship with the society.
  - ❑ It is the business obligation towards the society.
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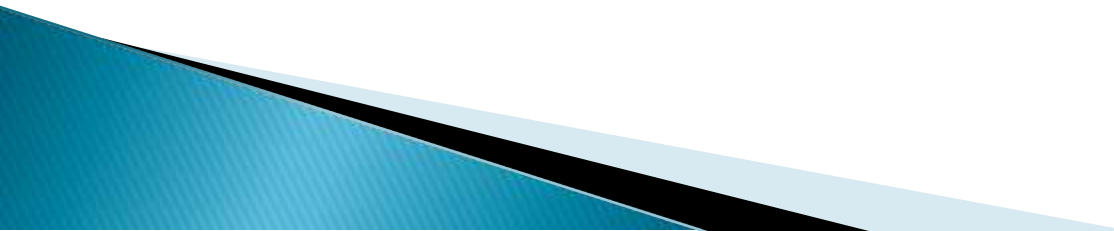
# Elements/Features of Socially Responsible Organization

- ❑ Accountability
  - ❑ Collaboration
  - ❑ Voluntary
  - ❑ Open Environment
  - ❑ Internal Assessment
  - ❑ Put social responsibility in writing
  - ❑ Take social responsibility as top agenda
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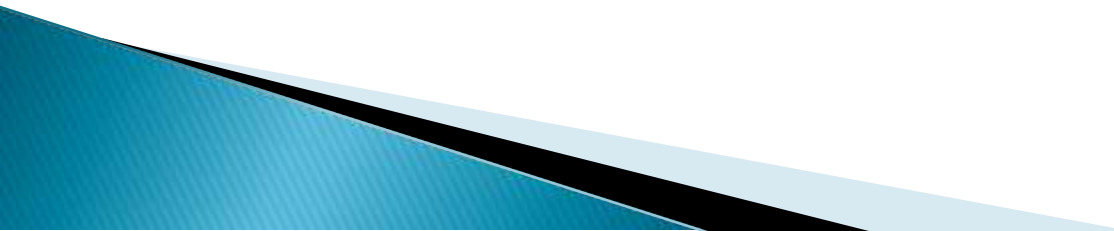
# Approaches/Strategies of Corporate Social Responsibility

- ❑ Social obstruction approach
    - *Profit is the most important aspect and hide unethical, immoral and illegal activities.*
  - ❑ Social obligation or defensive approach
    - *Comply with existing rules and regulations.*
  - ❑ Social response or accommodation approach
    - *Respond to social issues and problems voluntarily.*
  - ❑ Social contribution approach
    - *Anticipate and explore public expectations, ethics as a part of mission statement.*
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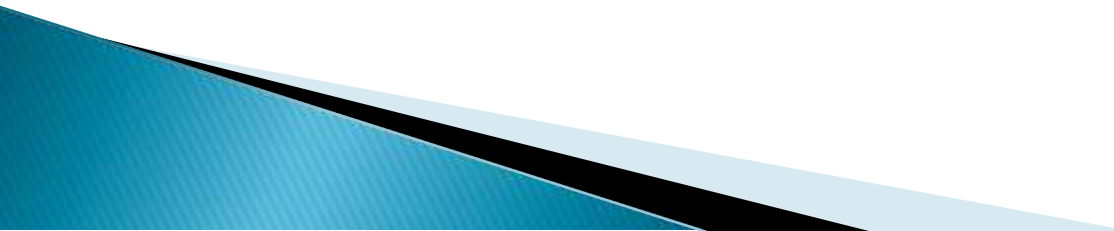
# Areas of social responsibility of business

- ❑ Investors/Shareholders
  - ❑ Consumers
  - ❑ Employees
  - ❑ Government
  - ❑ Community
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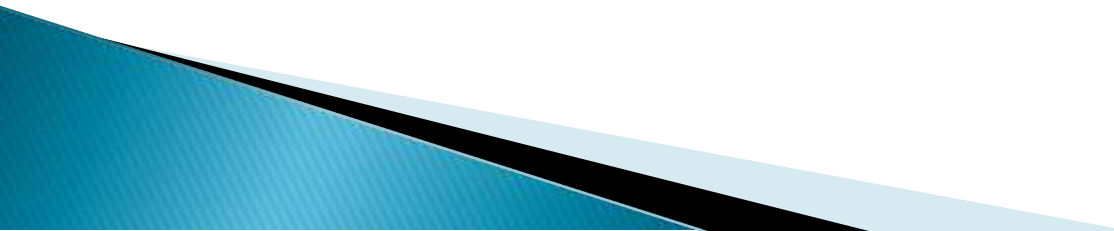
## *Responsibility towards investors/shareholders*

- ❑ Security of investment
  - ❑ Regular and fair payment of dividend
  - ❑ Right and timely information to the shareholders
  - ❑ Participate the shareholders in planning and decision making
  - ❑ Increase the net worth of the business by utilizing the resources productively
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## *Responsibility towards consumers*

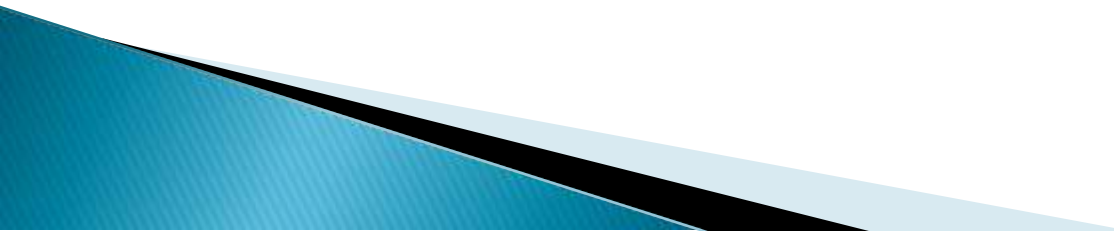
- ❑ Provide qualitative products at a reasonable price
  - ❑ Enhance the product quality constantly
  - ❑ Provide after sales services
  - ❑ Research and development for new product development or improve the quality of the present products
  - ❑ Reduce unhealthy competition and black marketing
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## *Responsibility towards employees*

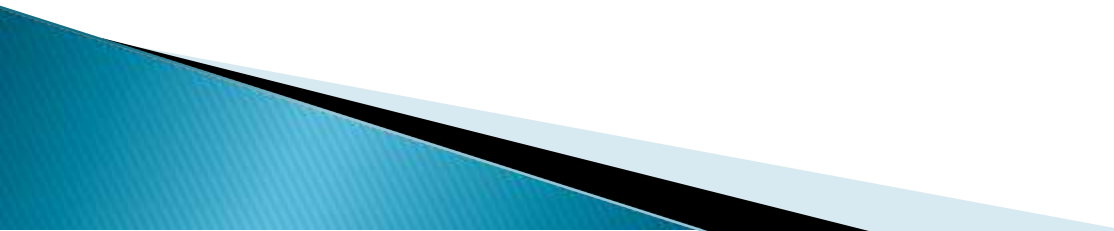
- ❑ Ensure stability of the job
  - ❑ Proper remuneration and benefits
  - ❑ Provide other benefits such as, higher education, medicine, training, and travelling
  - ❑ Proper evaluation of the job
  - ❑ Create good working environment
  - ❑ Provide opportunity to participate in management
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## *Responsibility towards government*

- ❑ Follow the rules and regulations of the government
  - ❑ Pay tax regularly and honestly
  - ❑ End monopoly and unhealthy competition
  - ❑ Help to solve the problems of unemployment, social problems, and poverty
  - ❑ Enhance national pride through healthy business
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## *Responsibility towards community*

- ❑ Control environmental pollution
  - ❑ Create employment opportunities
  - ❑ Utilize resources productively
  - ❑ Maintain social norms and values
  - ❑ Participate in management and decision making
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## Arguments for social responsibility of business

- ▶ Boosts company image
- ▶ Builds strong customer relationship
- ▶ Boosts employee morale
- ▶ Better access to finance
- ▶ Positive media attention
- ▶ Reduces legal burden
- ▶ New business opportunities

## Arguments against social responsibility of business

- ▶ Not a basic function
- ▶ Distorts profit
- ▶ Operational problems
- ▶ Difficulty in quantification

# Friedman's Doctrine of Social Responsibility



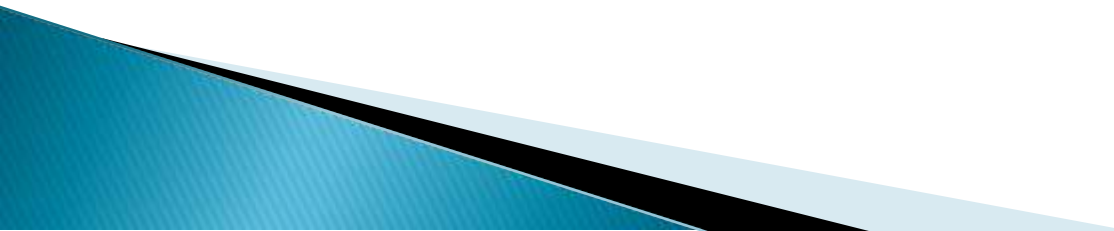
## **Milton Friedman (1912-2006)**

- American Nobel Laureate
- Economist, Monetarist
- Essays in Positive Economics, A Theory of Consumption Function, Capitalism and Freedom, A Monetary History of the United States

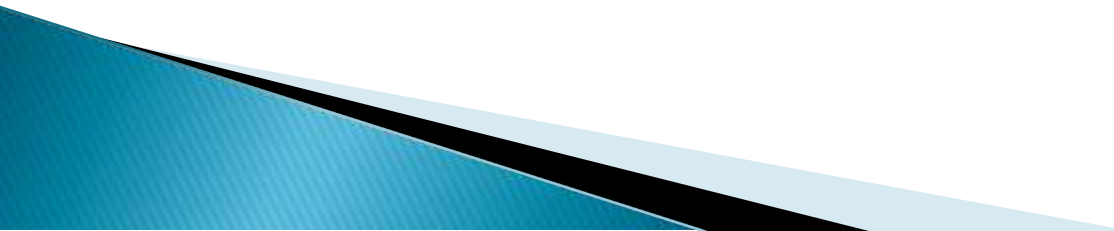
*“There is one and only one social responsibility of a business- to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”*

- Friedman’s doctrine, also known as shareholder theory, advocates on how to increase shareholders’ value i.e. to increase profit.
- He also advocates that shareholders’ satisfaction is entity’s greatest responsibility and business decisions regarding the social responsibility rest on the shareholders, not the decision makers in the organization.

## Contributions of Friedman's Doctrine

- ❑ Friedman's Doctrine influences corporate decision regarding the social responsibility of the business.
  - ❑ As decision makers wait the decision of shareholders, and the main interest of shareholders rests in their wealth maximization, social responsibility focus of the company remains low.
  - ❑ This doctrine emphasizes on increasing profitability of the business as the primary interest of the shareholders is profit maximization.
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# Limitations of Friedman's Doctrine

- ❑ The doctrine focuses on individualistic approach, especially from the societal perspective.
  - ❑ This doctrine has not considered the different dimensions of social responsibility, for example, legal compliance, moral value and virtue, economic, social and financial perspective.
  - ❑ One of the strongest criticism is that this doctrine gives highest priority and rights to the shareholders regarding whether organization needs to invest in social responsibility or not.
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# Carroll's Doctrine of Social Responsibility

- ❑ Archie B. Carroll is a world renowned professor and CSR advocate, who has been awarded for his unique contributions.
- ❑ According to Carroll, there are four kinds of social responsibilities:
  - ❖ Economic responsibilities
  - ❖ Legal responsibilities
  - ❖ Ethical responsibilities
  - ❖ Philanthropic responsibilities



## Be a good corporate citizen

Contribute resources to the community, improve quality of life

Philanthropic responsibilities

## Be ethical

Obligation to do what is right, just and fair. Play by the rules of the game

Ethical responsibilities

## Obey the law

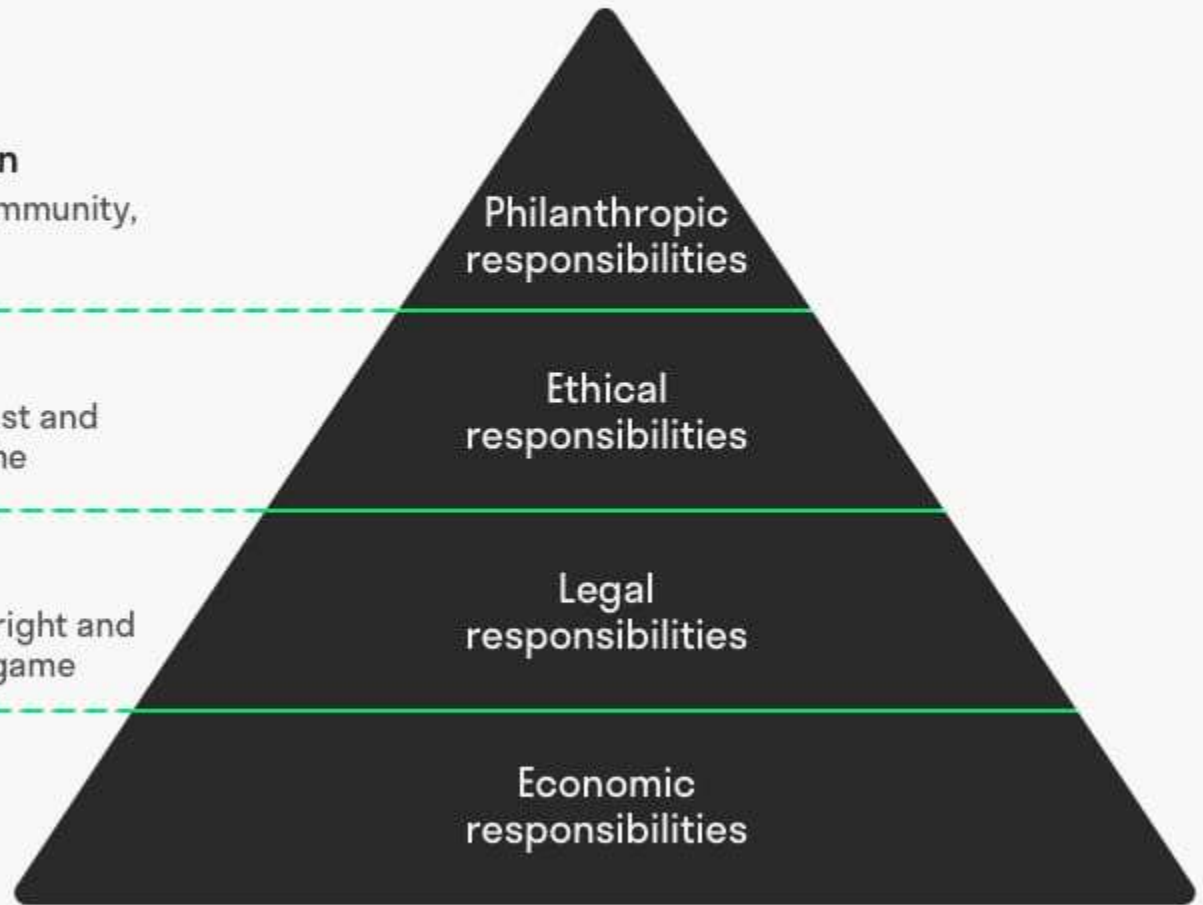
Law is society's codification of right and wrong. Play by the rules of the game

Legal responsibilities

## Be profitable

The foundation upon which all others rest

Economic responsibilities



Thank  
you

