

# CORPORATE RESPONSIBILITY AND BUSINESS ETHICS

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## **Abstract**

*There is neither a separate ethics of business nor is one needed. This paper goes on to argue that business ethics and social responsibility are not unrelated. It shows how it is necessary to distinguish between business philosophy and philosophy of business. Through this distinction, it develops a framework that relates the business ethics and corporate social responsibility. It goes on to argue that there is a paradigm shift in the philosophy of business. This shift leads to a framework wherein a new perspective on business ethics and social responsibility emerges. It is coined as Corporate Responsibility. It consists of (a) good governance (b) corporate social responsibility (c) environmental accountability. It discusses the role of top managers in achieving Corporate Responsibility through Organizational Transformation. However, the major challenge is of evolving a strategy for laying down standards that take care of major issues and provide standards that are measurable, objective and universal.*

The study of Social Responsibility needs to be examined before proceeding any further. The examination will be based on the fundamental basis of social responsibility and the relationship between business ethics. It has become almost passé to highlight a case for CSR by eulogizing the benefits of Social Responsibility programs for the bottom-line, that is, for profit. The justification for such an approach arises out of business strategy. In turn, Business Strategy relates to Business Philosophy. While having stated the premise of Business Philosophy, it is important to distinguish between Business Philosophy and Philosophy of Business. Business Philosophy is a driving force of a particular business. For instance, the Business Philosophy of Tata's might be to develop a business that is quality conscious and produces products that are within the reach of the common man. On the other hand, Philosophy of Business explains the moral principles that underlie business as a domain. It goes into the purpose of business and the ethical basis and consequences of business. Therefore, Business Philosophy relates to the vision of a company whereas philosophy of business is an area of study. It is a sub-discipline of philosophy. The Business Philosophy may or may not include the ethical dimensions. Peter Drucker, (1981).

The philosophy of business is concerned with the ethical foundations of business as a discipline. It also refers to an understanding of the moral and ethical basis of business as an area of knowledge. While Business Philosophy is a way of conducting business so as to achieve the goals of a particular business and also part of Business Policy or Strategy

## **Business and Society**

The basic objective of business is to develop, produce and supply goods and services to the society. This has to be done in such a way as to allow companies to make profit, which in turn demands far more than just skills in companies' own fields and processes.

The goods and services produced must meet demands made by the society, other companies or public institutions if the company is to survive. Profitability results when customers are satisfied and prepared to pay more for goods and services produce them. It is very much in the interests of any company to be a good corporate citizen. Companies that have a clear identity and clear business concepts, often find it easier to handle and integrate ethical and social values and to take the environment into account. Having clear business objectives makes it easier to formulate and implement goals based on values and norms both within the company and among the general public.

## **Corporate Responsibility of Businesses towards Society**

By the existing philosophy of business a business only had a responsibility towards its shareholder by earning profit for them. The basis of the philosophy of business should naturally include its obverse. Hence, it lies in not only explaining 'how business is possible?' but in explaining "How businesses cease to operate. Hence, earlier businesses could be formed and could operate successfully. It was assumed that any responsibility that business had towards society is duly discharged through the market mechanism. Services, goods, raw materials and other resources that are drawn by business from society are adequately recompensed by the price established by the price mechanism. The prevailing philosophy was content with such a notion. Now, the second implication of the paradigm shift is that businesses can no longer afford to do so. A business has to be responsible towards society. It has to be accountable to the environment. And, it has to be good to its shareholders.

## **Corporate Responsibility**

Corporate Responsibility arises from Business Ethics and has three dimensions, that is:

- (a) Good Governance
- (b) Corporate Social Responsibility
- (c) Environmental Accountability

This is how business ethics becomes an all pervading influence in the governance of business. The top management is not only responsible to envision such a change but to translate this vision into practices and also to make sure that they adopt a balanced approach towards three dimensions. It should be evidenced from the conduct of business as it is not easy for them to get away from this by indulging into only in lip service.

(a) **Good Governance:** The corporations are formed on the basis of division of ownership and control, in which the investor or owner relies on the manager i.e. CEO to manage the business on his behalf which implies that principal agent relationship exists

between investor and manager, which causes the room for asymmetric information i.e. there is always a gap between the information possessed by the manager vis-à-vis the investors. This situation calls for a good governance, corporate governance means transparency. The shareholders must have full and true information. There should be transparency in processes, so that the agent (manager) cannot mismanage or take the advantage of the asymmetric information. The objective of good governance is to have such system of controlling and managing so that the interest of owner may be protected. For this to be successful, whatever hurdles are there in the processes are to be removed. The processes are necessary to prohibit the manager to push their own agenda or self interest, i.e. the manager as working in the capacity of agent, might have their own individual goals to pursue which are not in line with organizational goals. Such processes are to be institutionalized which protect the interest of the owner i.e. profit maximization and wealth maximization. Therefore, ethical structure has the implication for good governance, which means better profits. It is important to make profits within ethical framework. There is a shift in the psychology of investors they are not only curious to know how much profit the Company has booked but also how this profit has been earned, i.e. ethically or unethically. Therefore, business has to be done ethically, the profits are to be taken seriously, if not, it would be interpreted as if the business is not indulging into good governance.

(b) **Corporate Social Responsibility (“CSR”)**: Second ethical dimension of CSR includes the social practices where the company is discharging its responsibility towards community at large i.e. stakeholders. Stakeholders are the ones who can influence or can be influenced by the actions, decisions, policies, practices and goals of the company. Apart from shareholder, it includes employees’ consumers, supplies, government competitors, and community at large. Traditionally, so far business was treated purely from the point of view of private personal pecuniary motive. Now, a company has acknowledged its responsibilities to society that goes beyond the production of goods and services at a profit. It involves the idea that the corporate has a broader constituency to serve than that of shareholder alone, in more recent years, the term stakeholder has been widely used to express this broader set of responsibilities. By now, it is accepted that corporations are more than economic institutions and they have a responsibility to help society to solve pressing social problems. CSR is about how companies manage the business processes to produce an overall positive impact on society. According to Richard Walls, “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local communities and society at large”. CSR is about business giving back to society. The concept of social responsibility is fundamentally an ethical concept as it involves changing notions of human welfare, and emphasizes a concern with the social dimension of business activity that have to do with improving quality of life. The concept provided a way for business to concern itself with these social dimensions and pay some attention to its social impacts. As a result, many of them put a step forward for discharging their responsibility by indulging into philanthropy or by bringing CSR into business strategy.

(c)**Environmental Accountability:** Corporate Responsibility has third dimension in form of accountability of business towards environment. As business interacts with its natural environment, it draws its resources from the environment. It also influences the environment by its actions. Therefore, it is also accountable to it for any impact, which it makes. Earlier corporate dumped their wastes with impunity in the environment. With the growing awareness and concern about environmental degradation, depletion of natural resources like water and fossil fuels and the phenomenon of global warming, there is moral and legal pressure on corporates to realize that the earth needs to be preserved, and looked after so that future generation are not adversely affected. Corporate Responsibility is closely linked with the principles of Sustainable Development, in proposing that the enterprises should be obliged to make decisions based not only on financial or economic factors but also on the social and environmental consequences of their activities. Therefore, corporate responsibility is about how businesses align their values and behaviour with the expectations and needs of different stakeholders. It also describes a company's commitment to be accountable to its environment, i.e. planet, to be responsible to its society at large, i.e. people and to be transparent in his business practices, i.e. good governance which determines the profit for the investors.

### **The Role of Top Management**

The leaders of the business must realize the importance of putting people and planet at par with the profit if not before it. As in today's highly competitive economy, the importance of ensuring positive impact on the society can be crucial to both the corporate reputation and business success. For incorporating ethical considerations, that comes no doubt from top leadership who are aware of the fact that three dimensions of ethics percolates all through the organization. But such awareness about CR must be backed by commitment and consciousness to enforce the top management to find out the ways to integrate ethics and values into their day-to-day decision-making. Of course, the role of top management is crucial in the sense that he has the responsibility to translate this vision into business strategy. He has to further harness the CR practices by bringing out the organizational transformation with which this vision would be carried down from top to bottom level in the organization. It is possible by developing systems, processes, policies, plans, practices, having programmes so that it is deeply embedded into the organization. Ultimately, it pervades the whole organization which means not only from top to bottom but also in all functional areas, whether it be HR, marketing, account, finance etc. This whole process is known as institutionalization of CR practices into business system.

If the organization desires to have successful implementation of CR practices, then CR efforts are not only to be institutionalized but also to be perpetuated in organization. Besides this, top management should try its level best to build a system by which CR would become sustainable, only then vision would become reality. There are several ways in which we may look at the role of top management. In the light of above

discussion, we believe the most crucial issue is to know whether she is aware and conscious of CR, how he translates this vision into CR practices, how she contributes to the process of organizational transformation in order to make CR efforts pervade the entire organization. The most important criterion is about what steps have been taken to have the sustainability and the perpetuation of CR efforts within organization.

### **Challenges of Setting Standards of Corporate Responsibility**

Coming to the issue of setting international standards the main problem is that the extant approaches are in the form of global principles of CSR. It can be said that they deal with the problem at a very general level. For instance, amongst the most important principles, namely, The Bellagion Principles, The Global Sullivan Principles, The UN Global Compact, The Bellagion Principles alone have a 'Practical Focus'. However, setting standards implies not just measurability but the amenability of standards to become benchmarks and for them to be objective and universal.

### **Benchmarking**

Going by this approach the question is how to radically modify the assessment criteria. The major challenge is that for such an approach how can standards be benchmarked? The first aspect of benchmarking is the problem of measurement. With the new criterion of success how is it possible to measure success? Secondly, the question is as to what is the common yardstick of success in this new paradigm of success?

### **Merging Standards**

The standards for one aspect like governance may not be malleable so as to be amalgamated with environmental accountability. The codes of each measure must be common for unambiguous interpretation. Another problem of measurement is that ISO is experienced in laying down standards for physical measures.

### **Conclusion**

There has a controversy over the need for business ethics. The controversy had a misplaced emphasis. Today it is most urgently felt that different dimensions, namely, social responsibility, environmental accountability and governance must be brought under one umbrella of business ethics. The top management must bring about organizational transformation so as to make such a trifocal approach sustainable. However, the major challenge is of evolving a strategy for laying down standards that take care of major issues and provide standards that are measurable, objective and universal. The three central issues of International Social Responsibility Standards are:

- (1) Acceptance of the tri-focal approach Governance, Responsibility and Accountability.
- (2) Approach to methods of measurement is resolved.
- (3) The mandatory versus voluntary issue can be resolved only if issues of measurement and their universal applicability is resolved.

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