# ETHICAL PRACTICES IN THE CORPORATE WORLD: NEED FOR REGULATION

*Kuber Bhola\*, Reema Malhotra\*\**

## Abstract

The corporate world today is highly pro-active in adopting ethical practices that cater to the upliftment of a wide section of the society. Corporate social responsibility, as a business ethic and method, ensures social partnership and multi-cultural diversity at the workplace. Even as attempts are made to make CSR mandatory for organizations, a process like this comes with its pros and cons. These practices are often accused with a poor sense of regulation and are ill known for their attempts to enhance reputation, taxation and revenue. This paper attempts to raise some of these critiques of the CSR model, as exemplified by some leading IT companies in India. We aim to highlight the emergent need of a systemic regulation and assessment of these ethical measures. Bringing ethics into the mainstream by establishing regulatory mandates and systematizing norms of execution of CSR protocols remains central to our work. Towards the end, we propose a solution in the form of a certifying tool called 'SA 8000' that evaluates the ethical impacts of corporate activities and policies. The adherence to these international business standards is foreseen to have long-term implications in certification and promotion of socially acceptable working practices in any organizational structure.

**Keywords:** Ethical Practices, Corporate World, Regulation, Corporate Social Responsibility

*\* Consultant, HCL Technologies, Sector 58, Noida, Uttar Pradesh- 201301, India.*
*Email: kuberbhola@gmail.com*
*\*\* Corresponding Author, Assistant Professor, Department of Psychology, Keshav Mahavidyalaya, University of Delhi, New Delhi- 110034, India.*
*Email: reema6@gmail.com*

## Introduction

Till a few decades back, an organization's sole responsibility was considered the pursuit of its financial gain. In 1970, the economist and Nobel laureate Milton Friedman published an article in *The New York Times Magazine* titled, 'The Social Responsibility of Business Is to Increase Its Profits', in which he referred to corporate social responsibility (CSR) programs as *"hypocritical window-dressing"* (Time: Business & Money, 2012). It was only in early 1970's that the first roots for social legislation was established with the creation of Environmental Protection Agency (EPA), Equal Employment Opportunity Commission (EEOC), Occupational Safety and Health Administration (OSHA), and Consumer Product Safety Commission (CPSC). These governmental bodies recognized the environment, employees, and consumers to be significant and legitimate stakeholders of business who claim both legal and ethical rights (Carroll, 1991). The general skepticism and contempt with which corporates viewed corporate social responsibility (CSR) was gradually taken over by a collectively sanctioned endorsement. With more than 8,000 businesses world-wide having signed the UN Global Compact pledging to show good global citizenship in the areas of human rights, labor standards and environmental protection, CSR now inevitably embeds all businesses – small or big.

## Practice of ethics through Corporate Social Responsibility

Corporate social responsibility (CSR) is the way a corporation achieves a balance among its economic, social, and environmental responsibilities in its operations so as to address shareholder and other stakeholder expectations. A more recent definition of CSR proposed by European Union is, *"CSR is a concept whereby companies integrate social and environmental concerns in their business operations and stakeholder relations on a voluntary basis; it is about managing companies in a socially responsible manner"* (Holland, 2003). It is known by many names, including corporate responsibility, corporate accountability, corporate ethics, corporate citizenship, sustainability, stewardship, and triple-E bottom line (economical, ethical, and environmental). Buchholz (1991) identified five key elements found in most, if not all, definitions: 1) Corporations have responsibilities that go beyond the production of goods and services at a profit; 2) These responsibilities involve helping to solve important social problems, especially those they have helped create; 3) Corporations have a broader constituency than stockholders alone; 4) Corporations have

impacts that go beyond simple marketplace transactions; 5) Corporations serve a wider range of human values than can be captured by a sole focus on economic values. CSR is the search for a balance between three Ps namely profit or creating revenue, people or exercising social responsibility and planet or responsibility towards ecology (Van der Rijt, Hoeken, & Kardol, 2011, Elkington, 1999). Thus, a more comprehensive and widely accepted four-part conceptualization of CSR was proposed (Caroll,1999) that distinguished a company's responsibilities as economic, legal, ethical and philanthropic. This 4-step pyramid portrays the four components of CSR, beginning with the basic building block notion that economic performance undergirds all else (figure 1). At the same time, business is expected to obey the law because the law is society's codification of acceptable and unacceptable behaviour. Next is business's responsibility to be ethical, to do what is right, just, and fair, and to avoid or minimize harm to stakeholders (employees, consumers, the environment, and others). Finally, business is expected to contribute financial and human resources to the community and to improve the quality of life. as captured in the philanthropic responsibility. The implementation of these responsibilities may vary depending upon the firm's size, management's philosophy, corporate strategy, industry characteristics, the state of the economy, and other such mitigating conditions, but the four component parts provide management with a skeletal outline of the nature and kinds of their CSR.

**Figure 1.** Caroll's Corporate Social Responsibility Piramid
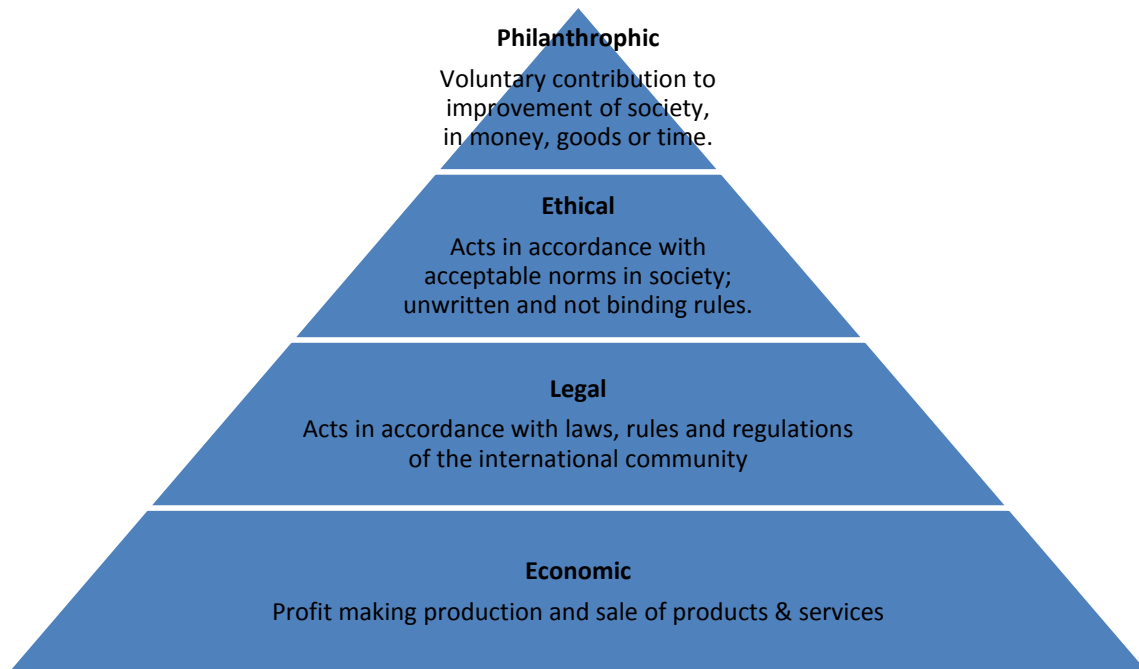


Wood (1991) insists that the very idea of CSR is based on the three-level roles of businesses i.e. institutional, organizational, and individual. These are respectively expressed through the three principles of legitimacy, public responsibility, and managerial discretion, as depicted in table 1 below. Based on data from 185 companies in Taiwan, that was exposed to structural equation modelling, Chen (2011) constructed a model in which CSR was mainly influenced by four core components: accountability, transparency, competitiveness, and responsibility of an organization. Companies committed to high ethical standards not just attract best employees but also customers, since it is believed that a satisfied employee is a productive employee who contributes to the company's success (Hincha, 2013). Coca-Cola recently started a program to empower young women entrepreneurs. The 5×20 program aims to bring five million women in the developing world into its business by 2020 as local bottlers and distributors of Coca-Cola products. This can have multiple effects like increased revenues, more workers for businesses, better-educated, healthier families and eventually more prosperous communities. CSR is a dynamic concept and its meaning can change over time (Carroll 1999, Matten & Moon, 2008), such that *"the definition of CSR is inconsistent across national boundaries"* (Freeman & Hasnaoui 2011).

**Table 1.** Wood's (1991) Principles of Corporate Social Responsibility

| Principle of Legitimacy | Principle of Public Responsibility | Principle of Managerial Discretion |
|---|---|---|
| **External focus on expectations of society** | Beyond general expectations of society, that is, at the corporation level | Involves individual choice or managerial discretion |
| **Society grants the right to business to operate** | Determined by uniqueness for circumstances of the corporation | Individual decision makers or managers determine |
| **Adherence of social norms of society** | Resource dependence determines | Relates to latitude of action possible by management |
| **Pressures particularly strong on some corporations, e.g. large ones or consumer products** | Involves managing relationships with immediate environment | Focuses on range of strategic options available to management |

*Sources:* Sexty, R. W. (2011). Canadian Business and Society: Ethics & Responsibilities (2nd ed.). Canada: McGraw Hill; Shropshire, C. & Hillman, A. J. (2007). A Longitudinal Study of Significant Change in Stakeholder Management. Business & Society, 46(1), 68–74.

## Critiques of the CSR model

### *Pros*

- Fulfillment of society's needs or expectations. Society is a "system" of which corporations are a part, and that the system is interdependent among individuals, groups, and organizations in society, or among subsectors of society. Strategic CSR can become source of tremendous social progress, as the business applies its considerable resources, expertise and insight to the activities that benefit society, surveys shows that companies should operate in ways that secure long-term economic performance by avoiding short-term behavior that is socially detrimental or environmentally wasteful (Porter and Kramer, 2006).
- Reputation management is the effort to enhance the company's reputation, positive media image and public relations. Philanthrophic acts that complement the company's brand values, mission and goals, can improve the company's strategic positioning (Simmons & Becker-Olsen, 2006).
- CSR activities not just add to the organisation's reputation but add to the financial market, higher prices for their products and interest of investors (Fombrun & Shanley, 1990). A collective influence of the above factors produces sustained market positioning of the company.

### *Cons*

- When a corporation takes philanthropic responsibility for strategic reasons, in order to meet egocentric company targets, the responsibility loses its altruistic nature (van der Rijt, 2011). For example, sometimes the donor implicitly expects a favour in return for its donation, such as its brand or logo may be shown on the beneficiary's website, printed in a brochure or mentioned in speeches.
- Another allegation against CSR is that companies only care about it for marketing purposes. It is merely a buzzword embraced by corporations because they then 'appear' to do the right thing and it helps them build their public relations and wide social network (Time: Business & Money, 2012).
- There are significant business risks associated with ignoring the protocols of CSR. Consumers and other companies are likely to shun firms that develop unethical reputations, more likely to stumble into legal troubles, such as mass corruption or accounting fraud scandals.
- Another speculation around CSR practices is the firms' lack of expertise to engage in solving social and environmental problems (Friedman 1962, Henderson 2001, Ottaway 2001). Relatively poor results of existing CSR initiatives in terms of delivering social and environmental outcomes may be a serious limitation that curbs the scope and efficacy around business ethics (Frynas, 2012).

## CSR cases of some leading IT companies in India

In India, many firms have taken the CSR based initiatives which have met varying needs of the society (Sharma & Kiran, 2012). Most of these include environment conservation, health care and education. Tata Consultancy Services (TCS) is India's largest software service company and has won the Asian CSR award for initiating community development work. The key focus areas of the company are its literacy programs, manufacturing environment friendly products and supporting children's health. The efficacy of their CSR activities lie in a three-dimensional model they practice at TCS,

that comprises of employees, management and workplace. International Business Machines (IBM) poses highest level of social responsibility among the leading IT companies in India. One of their core CSR initiative is the Indian women's' leadership council that aims to provide technical, professional and personal development to women. IBM has aligned its CSR policies with the values followed at the company, thereby impacting it as a global enterprise. Infosys works particularly in the area of computer education, where they offer computer-based skills to underprivileged children. Infosys Foundation is also working with Kaliyuva mane, that is an informal school for dropouts. Its other efforts include arranging blood donation camps, donating educational toys, social rehabilitation and environment preservation. WIPRO's initiative Women of Wipro (WOW) works for women empowerment and 'Wipro cares' for upliftment of migrated communities and disaster management.

Hindustan Computers Limited (HCL Technologies) is associated with efforts like its efforts for the upliftment of underprivileged children through its NGO Udayan Care, a Public Charitable Trust established in 1994. It runs several programs under its banner such as orphan home called Udayan Ghar, Udayan Shalini Fellowship Programme (education for girl child), Udayan Information Technology and Vocational Training Centre in the area of employability skills and Big Friend Little Friend Programme with absorbing youth volunteers into the mainstream. Shiv Nadar, Founder Chairman of HCL Technologies supported the mandatory 2 per cent spending on corporate social responsibility (CSR) in November 2013. The chief of India's fourth largest IT services founded the Shiv Nadar Foundation (SNF), in 1994 to focus on philanthropic activities in education. He has committed Rs 3,000 crore for the next five years. Dedicated purely in the area of education, SNF has directly impacted 15,000 students and has created 2,000 first generation learners in the last 20 years. Furthermore, HCLTF (HCL technologies foundation) aims to create sustainable livelihoods, mentorship and capacity building, social recycling, youth development, child protection rights and women safety in the lives of the needy.

## Why be socially accountable? Need for regulation of ethical measures

While accountability and sustainability continue to be grey areas that leave several questions around regulation of business ethics, policy control and modulation of international standards, rather ambiguously answered, here arises the need to be accountable for a company's acts of social responsibility. CSR communication undertaken by the top 100 information technology (IT) companies in India were analyzed and it was found that most IT

companies are lagging behind in creating effective CSR communication on their websites (Chaudhri & Wang, 2007). A mere online mention of CSR by companies or investment of crores of rupees doesn't ensure its adequate implementation.

Debates have existed between letting CSR practices to be either voluntary or imposed in nature. One bench of entrepreneurs have argued against the imposing of regulation and have encouraged CSR to be based on moral suasion and market pressure. Based on stakeholder's interests, this approach leaves CSR practices as rather vague and voluntary in nature. following an open module for ethical practices has serious repercussions such as disempowering supply chain and leading to an economic imbalance among various companies due to the non-compulsory nature of CSR. The presence of assymetric information or no objective report of a company's CSR activities causes adverse selection, wherein the reward-punishment mechanism goes astray. Companies will not be motivated to perform CSR activities but perform actions which will increase their profit while causing loss to the stakeholders (such as producing low quality foods). This phenomenon is called moral hazard. On the other hand, a regulation of CSR is although viewed to add business-irrelevant burdens, yet the economic theory, believes that companies create social and environment value in order to create optimal economic value in the long-term (Tsukamoto, 2007; Besley & Ghatak, 2007; PricewaterhouseCoopers, 2001).

Under the new Companies Act (2013), all profitable companies with a sizable business will have to spend annually at least 2 per cent of three-year average profit on CSR works. This would apply to companies with a turnover of Rs 1,000 crore and more, or networth of Rs 500 crore and more, or a net profit of Rs 5 crore and more. The new CSR rules would come enforce from 1st April in the fiscal year of 2014-15 (The Financial Express, 2014; The Hindu, 2014). The CSR activities will have to be within India, and the new rules will also apply to foreign companies registered here. However, funds given to political parties and the money spent for the benefit of the company's own employees (and their families), profit from overseas branches and dividend received from other companies in India will be excluded from the net profit criteria. Among other activities, livelihood enhancement and rural development projects, promoting preventive health care and sanitation as well as making safe drinking water available would be considered as CSR activities. To ensure transparency, companies carrying out CSR activities have to display works on their respective websites. The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the governments efforts of equitably delivering the benefits of growth and to engage the Corporate World

with the country's development agenda (Singh, 2013).

Assessment and implementation of CSR practices, therefore, derives heavily from a comprehensive guidance for companies in the form of several globally recognised guidelines, frameworks, principles and tools. These include UN global compact, UN guiding principles on business and human rights, ILO's tripartite declaration of principles on multinational enterprises and social policy, OECD Guidelines, Institute of Social and Ethical Accountability's AA1000 and SAI's SA 8000 standard.
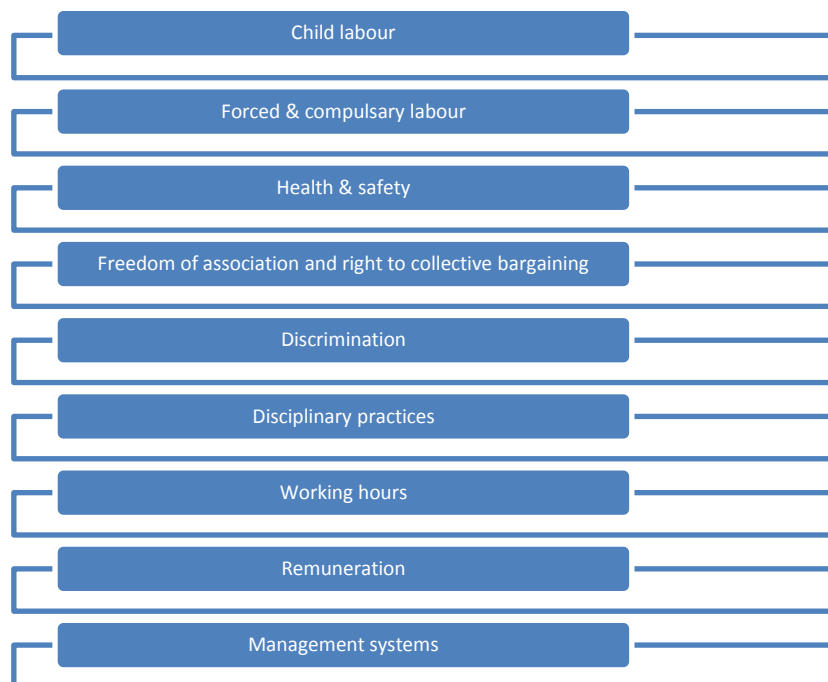
## An assessment tool called SA 8000

Social Accountability International (SAI) is a non-governmental, international, multi-stakeholder organization dedicated to improving workplaces and communities by developing and implementing socially responsible standards. It convenes key stakeholders to develop consensus-based voluntary standards, conducts cost-benefit research, accredits auditors, provides training and technical assistance, and assists corporations in improving social compliance in their supply chains. In 1997, SAI launched SA8000 (Social Accountability 8000) – a voluntary standard for workplaces, based on ILO and UN conventions – which is currently used by businesses and governments around the world and is recognized as one of the strongest workplace standards. SA8000 is one of the world's first auditable social certification standard for decent workplaces, across all industrial sectors, aiming at creating a common language to measure social compliance. Companies complying with SA8000 must adopt policies and procedures that protect the basic human rights of workers. The core nine elements of SA8000 standard are depicted in figure 2. These ensure remediation of any child labour; no violation of financial or human rights; provision of hygienic working environment and medical risk cover; freedom to organize unions and negotiate with employers; no discrimination in hiring, remuneration, access to training, promotion, termination, and retirement on the basis of origin, caste, religion, disability, gender, sexual orientation, political opinions and age; zero tolerance of corporal punishment, mental or physical abuse of personnel; compliance with laws & industry standards of working hours and only voluntary overtime; all workers aid at least legal minimum wage and integration of this international standard into management systems and practice (SA international guide, 2014).

The SA8000 standard is applicable to any company worldwide, across all industrial sectors with the exception of maritime. SA8000 requirements apply universally, regardless of a company's size, its geographic location or industry sector. Auditors from various certification bodies visit facilities and assess corporate practice on a wide range of criteria. A key part is to evaluate the performance of the company's management system to ensure the ongoing implementation of acceptable practices laid out in the SA8000 standard. After audit certificates are issued, companies must recertify every 3 years. Corrective actions need to be taken in due time after any non-compliances are identified.

**Figure 2.** Nine core criterion for SA8000 accreditation

- Child labour
- Forced & compulsary labour
- Health & safety
- Freedom of association and right to collective bargaining
- Discrimination
- Disciplinary practices
- Working hours
- Remuneration
- Management systems

## Implications & Suggestions

In the age of globalised world, the concept of CSR can't be ignored by corporate firms. CSR policy framing and implementation still continues to be of concern when the real-life scenario in most public and private sector units are concerned. An integrative framework of CSR is ensured through 1. the existence of globally accepted reporting standard/guidance on CSR reporting, 2. the existence of globally assurance standard for CSR reports, 3. the practice of good corporate governance, 4. Supportive regulation on CSR, and 5. Public pressure on CSR (Utama, 2014). As some observers have pointed out, the practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports (Handbook of Corporate Social Responsibility in India, 2013). Thus, the adherence to these international business standards is foreseen to have long-term implications in certification and promotion of socially acceptable working practices in any organizational structure.

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