

Business Ethics and Corporate Social Responsibility: A Conceptual Approach

Mbu-Ogar, Geraldine B.
Department of Accounting
University of Calabar, Calabar
Nigeria

ABSTRACT

Organizations are open systems which interrelate with the environment and stakeholders and are guided by acceptable patterns of behavior, standards and conduct which are fundamental to business operations, functionality, survival and growth. Business ethics embodies a system of moral principles, rules and standards expected to be adhered and complied with. Albeit, global changes in business trends has espoused the necessity for corporations to entrench ethics as part of its corporate culture, strategy and policy by promoting sustainable social practices that adds value to other stakeholder groups not only the shareholders. This paper seeks to elucidate what business ethics and corporate social responsibility means and the importance of integrating them as the core values and practice of any business concern.

Keywords: *Business ethics, Compliance and Corporate Social Responsibility.*

INTRODUCTION

Several corporate failures such as those of Enron and WorldCom in recent times have necessitated the exigency of ethics in business. These scandals undoubtedly revealed the inadequacies in organizational systems vis a vis the lack of accountability and proper management leading to poor public perception of business entities. As a result, investor's concerns are targeted at company's broad standard and value framework which embodies ethics. Corporations often are more profit centric with abysmal disregard for good ethical standards and conduct and enforcement of same within the organization which may result in sub optimal operations and plunge organizations into disrepute.

Literally, ethics connotes acceptable standards of behavior or conduct that determines right or wrong behavior. They are principles, codes, ideals and values that regulates the actions and inactions of persons or group of persons within an environment (Levin, 2011). Jones & George (2009) also defined ethics as the guiding principle for morals and values and the benefits accruable that are used to analyze and interpret a situation and decide what is right or the appropriate standards of behavior. On the other hand, business ethics basically deals with

morals as it pertains to management and governance. Business ethics which can also be described as corporate ethics is a form of applied or professional ethics that scrutinizes ethical practices and morals or ethical issues that abound in any business environment. It is applicable to all facets of business conduct and relates to the conduct of individuals and the entire organization (Włodzimierz & Richard, 2018). Cole (2002) as cited in Ebitu & Beredugo explains business ethics as established moral principles or values used by organizations to guide the conduct of the organizations operations and performance, its employees and the entire business process and procedures as it relates to both the internal and external business environment.

Business ethics serves as the hallmark of organizational operations, expansion and growth. They serve as standards or ideals which should be complied with in organizational conduct and decision making. The institutionalization of ethics and values in an organization forms part of the organizations corporate culture and shapes decision concerning the operations as well as the external environment.

Business ethics stands for the lucidness or clarity of purpose that is carefully thought-out and designed along actual practices of business enterprises. It is the connect between a conscientious concern/purpose towards execution of business processes in line with the nobleness of that purpose. In addition, business ethics ensures adherence to all ethical frameworks that aids corporations in securing public confidence in the product or service rendered to stakeholders. Ethics plays an important role in developing a business strategic plans and serves as the basics of a firms principles. Every organizations core objective is value creation through the provision of products and services for economic gains .Aside this objective /goal that is profit driven, it is very essential for organizations to incorporate as part of its strategies, moral and ethical standards such as being socially responsible. Business ethics revolves around ethical norms that explains the symbiotic/synergistic relationship that exist between a business/ company and its stakeholders. It further buttress the fiduciary responsibility of businesses to its stakeholders. It reflects the attitude of businesses, whose aims/ purpose is to carry out transactions within a defined set of policies that aligns with the fundamental purposes of the business.

All the various definitions of business ethics emphasizes a balance between organizations

quest for profit maximization with morality in business dealings and practices, safe work conditions and obvious concern for environmental and social advancement.

Business organizations are an integral part of society's construct comprising of the social, economic and environmental systems and as such their activities, processes and procedures should not only border on the economic aspect but also impinge on other stakeholders and the society which supports their existence. Globalization amidst rapid technological and environmental changes, has evolved novel trends and expectations which are adjudged as noble within any business environment. Under this new frontier, the development/survival of a business/organization is determined not only by the effective use and deployment of resources and adopting appropriate strategies, but also by taking into cognizance and initiating the concept of Corporate Social Responsibility (CSR) as a business ethical subunit in any organizational system.

Bhattacharya, Sen & Korschub (2011) explained CSR as a business opportunity that should be leveraged, not as an obligation, considering the role and interest of other stakeholders in business, and the need for CSR to be perceived and treated as a premeditated, permanent approach, not as a single shot, or one-off action in the short term. Through CSR, a company's corporate image, reputation and performance is endorsed and talented employees may be retained. These attributes adds value to businesses as they earn consumer and brand loyalty, reduce risk and build goodwill (Mullerat, 2010).

Corporations as a matter of necessity should strive to balance their desire to maximize profits with meeting the yearnings and needs of stakeholders. Maintaining this balance often requires compromises that are sustainable and borne out of genuine desire and concern for the development and advancement of the society (Dandago & Arugu, 2014).

Overtime, CRS as an ethical component has not been completely and optimally achieved by corporations in ensuring that their social responsibility strides meets acceptable thresholds which advertently ensures that the SR curve to all stakeholders is completely flattened. Good corporate social culture hinges on excellent business ethics. Therefore, CSR should not be anadhoc policy by corporations but integrated into the governance structure and strategy (Goel, & Ramanathan, 2014).

LITERATURE REVIEW

CONCEPTUAL REVIEW

SIGNIFICANCE OF BUSINESS ETHICS

Good business ethics garners the following to an organization:

Builds customer loyalty: A loyal customer/client base is a major feature to a sustained and long range business success. If customers or consumers are dissatisfied by an organizations modes of operation which may entail high prices or overcharges compared to those of competitors, such customers will not be repeat customers. Ethically conscious organizations builds a mark of reputation which helps create a more positive image in the market place, thereby attracting new customers and increasing market share. A reputation of unethical dealings impedes an organization's chances for improved market share and profit potentials.

Business ethics requires businesses to contribute meaningfully to societal growth through an articulated and clear cut approach that ensures maximum benefits to all with very minimal adverse environmental impacts. These practices reduces and forestalls litigations and stringent government regulations.

INFLUENCES ON BUSINESS ETHICS

Ethical behavior of businesses is influenced by the following:

Cultural Differences: The extent of a business inclination to ethical behavior is largely a function of the culture of the country/ domain where the firm operates. E.g, bribe is considered unethical and frowned at in the USA, whereas kickbacks is accepted as a norm in Nigeria and other third world countries.

Knowledge: knowledge remains the baseline for certain standards of behavior and it also increases the chances of making the best or right decision among several alternatives. Business decisions that are brash and hasty, not based on facts or clear understanding of the consequences could be detrimental and hamper the common good of the business and its stakeholders.

Organizational behaviour: The bedrock of an ethical business climate is an organizations ethical awareness through clear standards of behaviour. Organizations with streamlined codes of behaviour are better able at enforcing good business ethics for efficiency in

operations and also aiding employees comply with extant business codes for enhanced performance (Ajaegbu & Sharafa, 2014).

CORPORATE SOCIAL RESPONSIBILITY

Corporations have been under some pressure to incorporate beyond their own interest and priority those of society. This perception holds that organizations responsibilities span further than that of just economic gains for shareholders, but a more robust business context that accommodates all facets of society. This is important because the society plays host to businesses/ business operations and as such the society expects businesses to exhibit responsible behavior for all aspects of their operations. It is completely unethical for firms or corporations to experience economic expansion and prosperity without compensating for the interest of others within the business environment (Dimitriades, 2004).

Corporate social responsibility is a concept with broad responsibility spectrum which establishes accountable behaviour within a company. It refers to a business system that emphasizes production and distribution (wealth creation) for shareholders while integrating and implementing ethical systems and sustainable business practices.(Adda, Azigwe & Awuni, 2016).Corporate social responsibility is a multifaceted model comprising of four sub areas : economic, legal, ethical and voluntary philanthropic responsibilities (Carrol, 1991).The economic responsibilities behooves on the premise that businesses are to produce and distribute goods and services that meets society's needs and wants at a value that can preserve the businesses commitments to investors. The economic aspect of CRS also relates to varied issues including businesses liaison with competitors, shareholders, consumers, employees and the broader business environment. Also, the legal responsibilities of businesses are basically the rules, laws and regulations that moderates business operations. They are standards which are the minimum required of business organizations by society in exchange for obtaining factor inputs from the environment and transforming such inputs into semi -finished and finished goods to satisfy consumers yearnings/quest. The legal dimension equally emphasizes/ encourages compliance to extant and emerging regulations at both the local and international spheres with regards to the conduct of business. Ethical responsibilities on other hand are those moral demeanor or actions which businesses are to

render/demonstrate to society not yet encoded in law. The voluntary philanthropic responsibilities are society's expectations of business/corporations contributions in terms of alleviating the quality of life of the citizenry through social welfare initiatives E.g. embarking on charitable or community based projects. Carroll (1991) however emphasized the importance of CSR through a stratified pyramid with the economic responsibilities occupying the base of the pyramid while the philanthropic responsibilities taking the peak of the pyramid. This is indicative that being a corporate citizen and engaging in activities aimed at ameliorating the welfare of humanity promotes corporate goodwill.

NEED FOR CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) endorses an image of business accountability to an array of stakeholders, besides shareholders and proprietors. It focuses on environmental protection, remediation and mitigation strategies and social mediations pertaining to the welfare of employees, communities and the society both in the present and for posterity. This concept of CSR is buttressed by the fact that corporations can no longer be viewed as distinct economic entities operating in isolation from broader society. A synergetic relationship exist between corporation and other key players with the traditional view of profitability being also paramount.

Drivers supporting business towards CSR

1. The shrinking functions of government: Governments mandate is the provision of basic infrastructure/amenities via functional institutions. These institutions perform through legislation and regulations to deliver social and environmental objectives in the business sector. Unprecedented financial constraints coupled with distrust and skewed regulations has led to canvassing for voluntary and non-regulatory initiatives to compliment government's objectives.
2. Request for greater disclosure: There is a deep concern from various stakeholders for greater disclosure from corporations. These serves to depict the corporation's sensitivity to stakeholders (internal and external) claims.
3. Increased customer interest: Business ethical conduct largely influence customers purchasing decision. Several research have shown palpable customer bias in favor/against companies based on their perceived social performance.
4. Growing shareholder pressure: Investors assessment criteria for making investment

decisions does not only border on increased yield but also on ethical concerns. The Social Investment Forum reports in the US in 1999, revealed an upsurge of about \$2 trillion worth of assets invested in portfolios were linked to social and environmental responsibility. Some survey also revealed that about a quarter of Americans preference for buying and selling stocks are hinged on ethical considerations.

5. Competitive labour markets: Competition engenders optimum performance amongst industry players. Employees in organizations are conscientiously looking beyond remunerations and benefits, and seeking out operating practices and policies which provides greater job security. Hence to hire and retain skilled employees, Corporations must improve staff working conditions.
6. Manufacturers and Supplier relations: As stakeholders have become even more interested in business affairs, companies are taking steps to ensure synergy in the distribution chain, ensuring that partners conduct themselves in a socially responsible manner. Codes of conduct are entrenched for suppliers to ensure that other companies' policies or practices do not blot their reputation.

BENEFITS OF ETHICAL PRACTICES AND CSR

The benefits of adopting good ethical practices and CSR initiatives are thus:

1. Benefits to Company: The benefits of firms acceptance and compliance with ethical practices are copious, including heightened financial performance, lower operating costs due to less or no defaults/ penalties, boosted brand image and reputation, enhanced sales and customer loyalty, better productivity and quality, ability to attract and retain very skilled employees, less regulatory oversight, access to capital and other benevolent schemes.
2. Societal benefits(General public) Increased infrastructural development, creates employment opportunities, provision of volunteer programs (Medical outreaches etc) Corporate involvement in educational advancement, product quality and safety.
3. Environmental benefits: Reduction in waste production through greater material usage and recycling, higher product durability, satiety and functionality, use of bio-degradable and renewable components, integration of environmental management systems into business strategies and standards (Narayana, 2003)

RELATIONSHIP BETWEEN BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a subcategory of business ethics. The implementation of sound CSR is largely predicated on the existence of a functional system with ethical behavior and conduct established as part of the organization's mission/vision and its unwavering commitment to sustained ethical standards of operation. Corporate social responsibility encompasses core aspects of a company's culture such as accountability and transparency, diversity, inclusion and equality, environmental conservation and sustainability, governance, volunteerism and altruism. Both concepts compliments each other. Corporate responsiveness can only be attained if corporations become sensitive to moral and social norms as bedrocks for organizational functioning and performance. (Gheraia, Saadaoui & Abdelli 2019).

THEORETICAL FRAMEWORK

This paper explores three theories of corporate social responsibility propounded by Secchi (2007) which are Utilitarian, Managerial and Relational theories.

Utilitarian theories: These theories holds that corporations are part of the economic system in which its functions are automatic i.e profit driven. The utilitarian theory could also be viewed at parity with the instrumental theories in which businesses are solely instruments for wealth creation and the brain behind their involvement in social activities are only a conduit to achieve economic gains.

CSR ideas emerged due to a fundamental need for corporations to embed responsibility systems,

Structures and schemes into its business and operational ethics. Hence, the traditional form/regime of

Economic eccentricity anchored on individualism and determinism has to conform with social

ideologies and philosophies. Such traversing underscores less personal responsibility to more social

responsibility.

The Utilitarian theories have been categorized into two: the social cost of corporation and the

functionalism principles (Secchi, 2007) The social cost theory of CSR accentuates corporations non-economic inspirations towards socio-economic systems as a measure for responsibility allocation. Second, the functionalist theory views firms as an aspect of an economic system whose aim is drawn from its finite role of making profits in the society. Friedman(1970) further buttressed in aliening with the functionalist perspective that social responsibility of business is characterized by the utilization/ use of resources and engaging in ventures/ endeavors designed to enhance earnings/ profits in compliance with regulations governing open and free market operations among competitors without an intent to fleece and short change others.

Managerial theory: This theory of CSR centers on an internal/ firm centered perspective. It considers social responsibility as an intrinsic aspect of a firms policy. This is a peculiar feature that differentiates the managerial theory from others. It submissions are that all external representations of CSR are meticulously considered by management via organizational decision making. Managerial theories can be decomposed into three sorts :(i) Corporate social performance (ii) Social accountability, auditing and reporting (iii) Social responsibility for businesses at the international domain (Secchi, 2007)

Relational theory: This is premised on the complex and interdependent relationship that exist between firms and the environment. The theory explains firm's interactions and interrelations with the environment as the focus of CSR. The relational theory has four sub groups: (1) Business and strategy (2) Stakeholder concerns/approach (3) Corporate citizenship/ social conscience (4) Social contract.

This decomposition of the relational theory explains the ties between corporations and the environment. Thus, the activities of organizations becomes worthwhile only when it is elastic enough to accommodate social needs and reflect the amount of social power.

<u>Utilitarian</u>	Theories on Social Cost Functionalism
<u>Managerial</u>	Corporate Social Performance Social Accountability, Auditing and Reporting Social Responsibility for International Business
<u>Relational</u>	Business and Society Stakeholder Approach Corporate Global Citizenship Social Contract Theory

Source: Secchi (2007)

Utilitarian, Managerial and Relational Theories of CSR

EMPIRICAL LITERATURE

Goel et al (2014) studied business ethics and corporate social responsibility. Is there a dividing line? The study investigated business ethics and corporate social responsibility from a perspective that meaningful CSR should encompass firm's astute responsibility in the context of an overall paradigm of business ethics. It further posited that CRS should be perceived and seen as an integral part of corporation's business ethics. Adda et al (2016) also studied business ethics and corporate social responsibility for business success and growth. The paper mirrored business ethics and corporate social responsibility as fundamental for organizational growth and success and also considered eminently that business ethics promotes firm's image/reputation, garners greater customer loyalty and builds strong and healthier community relations. Gheraia et al (2019) equally studied business ethics and corporate social responsibility: bridging the concepts. The study emphasized the need for good business ethics and corporate social responsibility as significant due to competition that characterizes business operations. Such competition allows corporations to search for more opportunities by exploiting strategies or tools aimed at securing sustainability in the market. They however recommended that management in organizations should consider adopting both concepts as building blocks in their strategic positioning.

Also, Dimitriadis (2004) studied business ethics and corporate social responsibility in the economy: A commentary. The study addressed the concept of business ethics and corporate social responsibility in an economy, particularly the impact of globalization on businesses

and its effect on corporations strategies and performance in the digital era. The paper recommended that companies in the digital era are expected to cultivate very strong CSR culture as a standard in seeking to increase and advance their moral obligations to society.

Dandago & Arugu (2014) also studied Corporate social responsibility and environmental concerns in Nigeria, A critical focus on oil producing communities. The study examined the myriad concerns of stakeholders in the Niger Delta Region of Nigeria as it pertains to environmental issues and recommended that Multi-national oil corporations should impact positively on the Nigerian Niger Delta Region. CSR efforts should span several years (long term) and should meet the region's developmental needs. The CSR schemes should target core areas of need such as social infrastructure and environmental remediation to secure posterity.

METHODOLOGY

The explanatory research method was used for this study. The method was adopted because it increases understanding of the basic concepts of the study and advances knowledge about the relationship between the concepts.

CONCLUSION AND RECOMMENDATION

The importance of business ethics in organizational setting cannot be over emphasized. Ethics ensures that organizational operations and outcomes are properly regulated to impact positively on the wider social strata. Most importantly, since organizational internal processes affects its identified stakeholders, therefore, Corporations should have the interest of these stakeholder groups which can be achieved through activities based on moral philosophy and ethics. Business ethics should not be jettison as it remains the bedrock of any business success. Organizations should strive to maintain and sustain a tradition of good ethical consciousness and social norms to avoid upheavals which could impair its existence and performance.

REFERENCES

- Adda, G., Aziqwe, J.B & Awuni, R.A (2016) Business Ethics and Corporate Social Responsibility for Business Success and growth, *European Journal of Business and Innovation Reearch* 4(6), 26-42
- Ajaegbu, C.O & Sharafa, O.M (2014) *Understanding: Management governance & Ethics*,. Phodun Int'l Consulting Limited, Lagos, Jibowu.
- Bhattacharya, C.B., Sen, S., & Korschun, D. (2011). *Leveraging corporate responsibility. The stakeholder route to maximizing business and social value*. Cambridge: Cambridge University press.
- Carroll, A.B. (1991): "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organisational Stakeholders", *Business horizons*, 34., pp. 39 - 48.
- Dandago, K.I. & Arugu, L.O (2014) Corporate Social Responsibility and Environmental Concerns in Nigeria. A Critical Focus on Oil Producing Communities. *Issues in Social and Environmental Accounting* 8(2), 2014.
- Dimitriadis,Z.S (2004) Business Ethics and Corporate Social Responsibility in the e – Economy: A commentary. *Electronic Journal of Business and Organization Studies*.
- Ebitu, E. T & Beredugo, S.B (2015) Business Ethics and the Performance of Service Firms in Calabar, Cross River State, Nigeria. *European Journal of Hospitality and Tourism Research* 3(2), 28-38.
- Friedman, M. (1970): The Social Responsibility of Business is to Increase its Profits , *New York Times Magazine*, 13 September, pp. 32 - 33 & 122 - 126.
- Gheraia, Z., Saadaoui, S. & Abdelli, H. A (2019) Business Ethics and Corporate Social Responsibility: Bridging the Concepts. *Open Journal of Business and Management* 7, 2020-2029.
- Goel, M., & Ramanathan, P.E (2014) Business Ethics and Corporate Social Responsibility. Is there a dividing line? *Procedia Economics and Finance* 11, 49-59. Graw Hill, New York.
- Jones, G.R & George, J.M (2009) *Contemporary Management*, 6th Edition Mc

Mullerat, R. (2010). *International Corporate Social Responsibility*. The Nederland: Kluwer Law International.

Report of N.B Narayana Murthy Committee on Corporate Governance Constituted by SEBI (2003).

Secchi, D. (2007) Utilitarian, Managerial and Relational theories of Corporate Social Responsibility. *International Journal of Management Review* 9(4), 347-373.

Włodzimierz S, Richard S. (2018) Corporate Social Responsibility and Business Ethics in Controversial Sectors: Analysis of Research Results. *Journal of Entrepreneurship, Management and Innovation (JEMI)*,14 (3) 111-126.