Developing Ethical and CSR Standards in Indian Corporate Sector: A Conceptual Analysis


Abstract

The rapid globalisation of the Indian economy has heightened the importance of issues relating to ethics and corporate social responsibility (CSR). This paper attempts to explore the possibility for businesses to take action on these issues through CSR programmes, moving beyond risk mitigation toward proactively solving social problems critical to the business. This paper argues that if the macro-economy is under-performing due to unethical practices, an ineffective system and inaction of government, there is a likelihood that the contributions of businesses to societal welfare could fail to achieve the desired outcomes. Hence, there is an urgent need for formulation of ethical and moral standards to assist the establishment of good governance through which CSR would be the driving force.

Introduction and Background

Unethical practices - especially corruption - has been an issue in Indian society (cited from “Kautiliya Arthashastra”) for decades and is becoming an increasingly important issue in the globalized era (Bardhan, 1997) for society to address (Beauchamp and Bowie, 2001). Indian society has witnessed mega corruption events for decades involving every sphere of society including professionals and bureaucrats (Singh, 1997; White, 2009). The community - including the masses - is now more aware of these issues via news media and more recently through the initiatives of renowned spiritual leaders such as Baba Ramdev who have publicised these issues and organised mass rallies. The present scenario has led to ethical dilemmas surrounding the norms of the host country (ethical relativism), the norms of the home country (moral imperialism), or the core values that are deemed morally “best” (Beauchamp and Bowie, 2001, Donaldson, 1996). These dilemmas have significantly contributed to many multinational corporations’ mistrust of Indian society, and their initiatives to review the system in the past few decades have not succeeded (Singh, 1997; White, 2009).

The rapid pace of globalization in India and the resulting increase in the volume of international trade and investment has heightened the importance of issues relating to ethics, politics, corruption, Corporate Social Responsibility (CSR) and corporate scandals. This paper is an attempt to explore the possibility for businesses to action these issues through CSR programmes by moving beyond risk mitigation and toward proactively solving social problems critical to the business. This paper argues that if the macro-economy is under-performing due to governance failure, the contributions of businesses to poverty alleviation programs could fail to achieve the desired outcomes. Hence, there is an urgent need for good governance implemented through CSR agendas based on ethical principles.
A snap-shot of corruption, bribery and ethical dilemmas in the Indian economy

The root of unethical and immoral practices in India such as corruption and bribery can be traced from every dimension including education, health, infrastructure, power, agriculture, financial services, land reforms and child-labour. Tax Justice Network International’s studies since 1947 reveal a financial holding of $1456 billion by a few top officials/businessmen in Swiss banks. Indians involved in immoral practices do not feel guilty for such possessions because they are used to these practices in terms of their experiences and interactions with the system from early childhood. For example, a child’s admission to a good school/convert requires a large capitation fee along with the annual fee. The schools also require that the parents of the child are highly educated and powerful. To influence the system, an act of bribery is considered vital for parents to have their children admitted. Although there are various examples that can be cited to explain the situation, for the purpose of the study we will focus on education as a case to explore the country’s ethics and CSR initiative programs.

Such experiences lead to conflicts within the individual’s moral standards as the rightness or wrongness of an action depends on a society’s norms (Donaldson, 1996). The system presented in this example represents the norms shaping the action followed. Hence, the act is not immoral and is judged to the individual’s ethical relativism. The notion of moral imperialism posits that people should apply their own ethical values when operating in the business world (Iyer, 2001; Donaldson, 1996).

Literature and theoretical perspective

This paper uses the relevant literature rooted in ethical and CSR perspective to explore the current situation of unethical practices in India and suggests new approaches to good governance in India. Different ethical aspects are discussed in the sections to follow:

**Utilitarianism** – According to utilitarianism, an action is right if it leads to the greatest possible balance of good consequences for all. ‘Good’ is a relative term and has been weighed with units of measurement derived from standards such as Bentham’s pleasure principle (Hall, 1966), Mill’s happiness principle (Viner, 1948), Moore’s ideal values or Arrow’s preference satisfaction (Harsanyi, 1955). The core value of utilitarianism is advocated in the Vedas “Samasta Janaanaam sukhino Bhavantu” meaning maximum welfare of maximum people (Sharma and Agarwal and Ketola, 2008). This principle suggests the kind of practice that the community needs to inculcate for the greatest good of society.

**Kantian deontology** – According to Kant (1964) cited in Macdonald and Beck-Dudley (1994) it is the intention behind an action rather than its consequences that make an action good. He based his ethical perspective on a categorical imperative determined by universalisability, respect for people and respect for autonomous beings. Any business practice that puts money on par with people is immoral (Frederick, 2003). Kantian deontology is embedded in the Vedas which propagates to treat every individual with respect and compassion (Locklin, 2008).

**The issues of Justice and rights** – Justice is concerned with standards of fairness in ethical decisions. It can be compensatory, retributive, procedural, commutative or distributive. Material principles influence the axioms of justice; John Rawls (1971, 1999) seeks distributive justice that is rationally acceptable to all. Mill (Cited in Viner, 1948) argued for equality in treatment unless
an otherwise social cause demands a detour. The democratic justice system in India has innumerable loop holes that enable the politicians, corrupt officials and even the common man to use the law to one's advantage. Therefore, India needs to reform the laws to ensure distributive justice based on rationally acceptable provisions to achieve fairness. ‘Rights’ address the proportionate share of good things available to an individual in a particular situation. A right has three important components; a claim that one is entitled to, whether a person chooses to exercise it or not and invoking a compulsion on another person (Van Hooft et al., d/n). Both positive and negative rights are limited by the concept of equality. Vedas preach equality of all men and women of the earth and equal rights of all irrespective of caste, colour, creed and country (http://voi.org/books/hvhb/ch24.htm).

**Ethical relativism/ Moral imperialism** – Ethical relativism holds subjectivity at the core of ethical practice. If such judgement is based on what *ought* to be done; it is normative and if based on what *is* done; it is descriptive (Donaldson and Dunfee, 1994). Game theory provides evidence that individuals are intrinsically wired to cheat and play the system by skimming on other’s investment in social productivity. However, it is uncommon for violators of social codes to be shunned because of tolerance developing from ethical relativism (Collins, 2000) that is largely witnessed within the Indian society. Mahavira (599-527 BC), the 24th Tirthankara of Jainism, developed an early philosophy regarding relativism and subjectivism known as Anekantavada. A Rig Vedic hymn states that “Truth is one” (Ékam sat vipra bahudā vadanti). Modern Indian society needs to understand that religions tend to be relativistic, recognise the ‘truth’ and walk the path of the truth in pinning down unethical practices (http://www.answers.com/topic/relativism#ixzz1QfVE1ehv).

**Corporate social responsibility** – In the modern era, CSR is moving to newer paradigms of exhibiting willingness to share higher social goals. CSR has played a pivotal role in balancing corporate goals of advancement with personal, societal and environmental concerns. The application of CSR will balance the power and responsibility equation and will restore the respect that business should command as a means to self actualisation laying equal rights to the path suggested by the Vedas (http://voi.org/books/hvhb/ch24.htm).

**Narrow classical economic view** – The sole purpose of a business enterprise should be profit making and any other purpose should be left to other social institutions such as the government because the government is entrusted with the responsibility to fix social problems (Quazi and O’Brien, 2000). Friedman equated a free market with free society to achieve efficient democracy (Chua, 2000). Indian society - though deemed to function on the principles of democratic foundations laid by M. K. Gandhi, Jawaharlal Nehru and Dr. B. R. Ambedkar - does not emulate the voice of free society. It appears to be relying heavily on Adam Smith’s invisible hand that shapes people’s motivations in conducting business. Amartya Sen gives credit to Adam Smith’s ‘Theory of moral sentiments’ which gives due consideration to justice, liberty and other social issues (Sen, 2010). Friedman seems to be right in saying that exercising social responsibility costs money and that costs must be imposed by one business stakeholder on the other (Mulligan, 1986).

**Broader socio-economic view** – Bowen (1952) was first to coin the broader dimension of CSR (Maon, 2010). CSR perspectives can be grouped into four clusters: instrumental, political, integrative and value oriented (Garriga and Mele, 2004). The four prevailing justifications for the existence of CSR include moral obligation, sustainability, license to operate and reputation. Social responsibility refers to a person’s obligation to consider the effects of his/her decisions and actions on the whole social system (Quazi and O’Brien, 2000). Carroll (2003) identifies the
key components of CSR as voluntarism, indirect linkage with other voluntary organisations and the absence of measurable economic returns on some activities. Morell and Heald in the 1960s (cited in Carroll, 1999) advocated business interlinks with corporate philanthropy and community relations. Johnson (Cited in Carroll, 1999) looked at business social programs to add profits to their organisations. Preston and Prost (1975) introduced the notion of public responsibility to CSR. Drucker (1988) was a proponent of converting social responsibilities into business opportunities. Carroll (2003), presented a three dimensional model to achieve corporate social goals in the form of responsibility, responsiveness and social issues. In the 1990s, authors such as Wood reformulated the above dimensions based on performance measurement (Wood, 1991). Bowie and Duska in Jubb (1999) modified the classical view by adding the need to act in accordance with justice, causing no avoidable or unjustifiable harm to anyone. The Bhagvat Gita doctrine advocates for getting as much is necessary for one’s own living and makes it clear that one who craves the excess of anything is a thief deserving punishment (Gandhi on Trusteeship, http://wealthymatters.com/2011/02/26/gandhiji-on-trusteeship/).

The next in the continuum is the affirmative duty to prevent harm and do good. The obligation to prevent harm is dependent on capability, need and proximity which is known as the Kew Garden principles (Moses and Joshua, 1997). Frankena (1939) suggested an increasing order of difficulty: avoiding harm, preventing harm, removing harm and doing good. These principles of moral good are embedded in Hinduism which are signified as ‘Purusartha’ – consisting of success (artha), passion (kama), virtue (dharma), and self-perfection (moksa) (Sharma, et al., 2008). ‘Purusartha’ means not just human action, but the goal of human action (Sharma, et al., 2008). Spirituality should be emphasised in business practice as it is gaining momentum and is playing a prominent role in shaping business practices (Zsolnai, 2004; Mitroff and Denton, 1999; Chakraborty, 2002). The stakeholder theory advocates for incorporating stakeholders interests in the organisation’s purposes. Mutual dependence of corporations and society calls for a shared value that benefits both sides (Porter and Kramer, 2006). The firms’ observable outcomes then relate to the firms’ societal relationships (Wood, 1991). Such a system will enable the stakeholders and society to avoid unethical practices (Muniapan and Dass, 2008).

**Broad maximal view** – CSR was initially proposed as a self regulation device to ensure social control of business without depending on the uncertainties of individual ethics or the coercive authority of governments (Wood and Logsdon, 2002). Corporate citizenship and business citizenship are hence extensions of CSR across boundaries. Donaldson and Preston (1995) argued that balancing views of various stakeholders balances the perception of justice in their representation, thus minimising any violation of rights. Stakeholder theory constituting CSR agendas is visualised from different viewpoints of an individual, organisation and institution thus overcoming the criticism that only individuals have responsibility.

**Application of Ethical and CSR approaches to the Indian situation**

Justice Louis Brandeis (1915) noted business as an instrument which we are morally obligated to use to advance civilization. CSR has been seen as obeying the law, heeding the market and responding to public expectations. Business is a strong force in sculpting human civilization; hence businesses have to embrace this contribution explicitly with a moral initiative (Mulligan, 1993). This brings into question the accountability of the corporations (Matten and Crane and Chapple, 2003). The ancient Indian pundit Chanakya’s ‘Arthashastra’ and ‘Neetishastra’ written
about 300 BC is a science of politics and ethics intended to teach a wise king how to govern (Smith, 1999; Roger, 2003). Chanakya emphasized that the study of scriptures helps one to distinguish between spiritual welfare (dharma) and material excess (adharma). Indian society would benefit from studying the doctrine of Chanakya to keep their minds steady in both adversity and in prosperity and to be proficient in thought, speech and action. This is the essence of Chanakya’s thought on leadership – to balance the inner self and the outer world (Jain and Mukherji, 2008. The concept of ‘Shreshthadharma’ states that the better off one is in society, the higher should be one's sense of responsibility. The dimensions of CSR are clearly visualised in the concept of ‘Shreshthadharma’. Ashoka the emperor in his First Pillar Edict announced, “For this is my principle: to protect through Dharma, to administer affairs according to Dharma, to please the people with Dharma, to guard the empire with Dharma” (Roger, 2003; Smith, 1999).

In modern Indian society, management gurus are calling for businesses to shed their narrow loyalties to shareholders and to recognize their obligations to strive for the greater social good without undermining social harmony and ecological balance based on equity, justice, and solidarity. Bagavat Gita advocates that sacrifice will bring happiness resulting in enjoyment (Gandhi on Trusteeship, http://wealthymatters.com/2011/02/26/gandhiji-on-trusteeship/). He who enjoys the happiness without sacrifice and does not contribute to social welfare is undoubtedly a thief. CSR implies that the focus of organizations should not be limited to increasing shareholder’s value, but should be widened to take care of the needs of various other stakeholders of the company to create long term value. This is aimed at maintaining sustainable development of Indian society and the economy in particular. These stakeholders include employees, community, local government, consumers and so on. A business organization is an organ of society and a symbolic relationship exists between organizations and society. Such an initiative will drive the reforms of law, rules and regulations and propagate renewal and review of the Indian social justice system. Such an approach might enable individuals in Indian society to practice core principles that include discipline, dedication, devotion, loyalty, sincerity, honesty, and integrity as a continuum and make misusing the system highly impossible.

**Concluding remarks**

To sum up, management thinker Peter Drucker (1988) refers to profit not as the end of business but as a score of its effectiveness. In modern India, organizations such as the ‘Sreni’ (national guild), nigama (city guild) and samutthan (enterprise partnership), were expected to be profitable and viable, though their core objective was “Jagat Kalyanam” (well-being of the universe). In the globalized business world, there is a need to return to a similar social market economy concept to address the societal needs of stakeholders. The work of business is seen as dharma karya (righteous contribution). Increasing international business affairs call for moral absolutes to be formed and used more apparently. This movement calls for ethical universalism and proactive CSR which could provide a platform for a universal ethical standard that could become the norms of society and businesses in India and internationally. Such a process is imperative for CSR to achieve commercial success in ways that honour ethical values and respect people, communities and the natural environment as these new norms can be the basis of business operations globally in general and in India in particular. Thereafter, it becomes the responsibility of individuals, politicians, government, businesses and society as multiple stakeholders to put collective efforts in eliminating unethical practices such as corruption. These initiatives have to
be auctioned at both the macro and micro levels to enable CSR programmes to be successful in India and elsewhere.

References

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