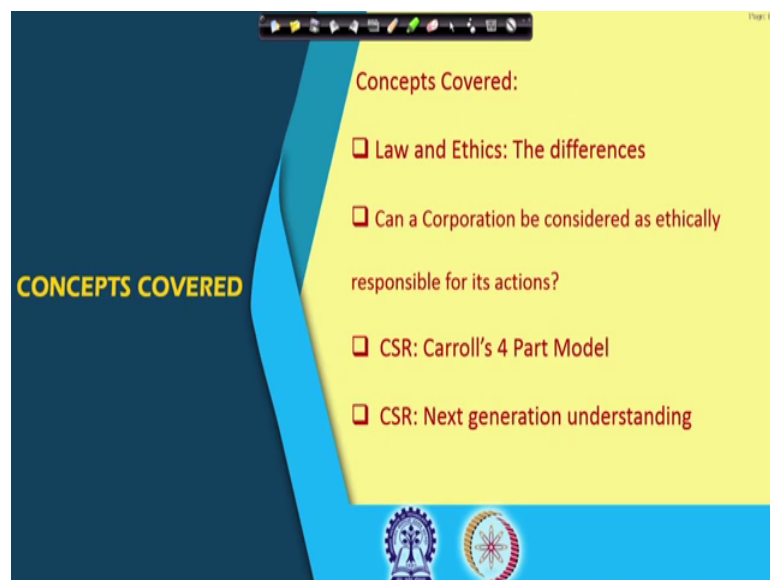


**The Ethical Corporation**  
**Prof. Chhanda Chakraborti**  
**Department of Humanities and Social Sciences**  
**Indian Institute of Technology, Kharagpur**

**Lecture – 04**  
**Law and Ethics, and Responsibilities**

Hello, we are back again with the 4th lecture of the week 1 and our topic today is Law and Ethics and Responsibilities because these are some of the central concepts in ethics and business ethics, so we are going to talk about those.

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Our plan of lecture is going to be like this as you can see that I have told earlier, that I will speak on the difference between law and ethics. What is the difference between being illegal and unethical? So, or what is the difference between legal and ethical, so we will be touching upon this topic today. And then corporate accountability I said I will be talking in a slightly greater details and so the time has come to take this subject up and then we will be talking about something called corporate social responsibility in connection to this ethical accountability for some actions and the responsibilities of ethical corporation. So, without further ado let us start the lecture.

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**Law and Ethics: The Legal and the Ethical**

- Ethics is normative, judgmental about human behavior. It would judge: Stealing is **wrong**
- Law is also normative, judgmental about human behavior. It too would judge: Stealing is **wrong**.
- Then where is the difference between Law and Ethics? Between the **illegal** and the **Unethical**?
  - When we refer to the Ethical Corporation, do we simply mean that a Corporation should comply with the law?

So, first of all the question that I think is legitimate to ask here is that we have been told that ethics is a normative prescriptive kind of study of behavior which tells us what we should do and what we should not do. So, in that case then the question is quite natural to ask that for example, ethics will say that stealing is wrong right, but someone might say, but that is what law also would say.

Because law also is a normative judgmental study about behavior, it also says what people should be doing and what people should not be doing. So, for example, on stealing they would their judgments are going to merge therefore, the question is that then is there any difference between law and ethics or there is none between the illegal and unethical is there no difference at all.

So, are we in all this just talking about what the legal boundaries are and to stay within the legal boundaries. Specifically when you are talking about this entity called ethical corporation do we merely mean therefore, that the corporation should comply with the legal requirements, is that all that we are claiming? The answer is no, but in order to justify that no I have to tell you where do the differences lie between law and ethics. So, that is our next topic.

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**Law and Ethics: The differences**

1. Unlike the laws, rules of ethics are **not** created by a legislative, judiciary act. ✓
2. Laws are supported by a country's legal system. The support of ethical rules does not come from the same source. ✓
3. Laws are laws of the land. They are limited by the **geopolitical boundaries** of a country. Ethical rules are **not** limited by such boundaries. ✓
4. The enforcement of legal 'should' is by '**force**'; the enforcement of ethical 'should' is supposed to be '**internal**', driven by values. ✓

First of all the difference is there in their origin; origin or how they are created. Now, laws some of you may know are created by a very structured process, it has to be judiciary act, it has to be a legislative body has to look into it, in our case it has to go through various procedures before it is tabled in parliament until then it remains a bill and so on.

So, there are certain formal processes by which a law is created, but rules of ethics are not created in that manner. So, the creation of from the point of view of origin or creation law and ethics are not at all the same. Then next point is how are they supported, if you look at laws then there is a whole legal system to support the laws, if you look into Indian penal court then that is there in order to support the kind of laws that we have whereas, our ethical rules are not supported in the similar manner.

The Indian constitution or the penal code is not supposed to provide any support for the ethical rules all right. So, even from the support or the justification point of view they stand apart. The third point is about this that laws after all are laws of the land, every law is such that it belongs to a country. So, there are the geopolitical boundaries of the country and within which within that boundary the laws are meaningful.

If you travel from India to say for example, to Singapore the same laws of India are not going to be applicable to you, the Singaporean laws would be applicable to you yes there

are exceptions where the same the laws may be the same between countries, but many laws I hope you understand the point are country specific.

So, that is why I am saying that laws are limited by the very nature in the way they are created and by the geopolitical boundaries of a country. Whereas, ethical rules are not limited by the boundaries of a country, the same rule will may apply no matter where you are ok. For example, if it is unethical to cheat on your spouse that remains unethical even if you travel from say India to Singapore or to some other country for example, this is a trivial example of course, but I hope the point is taken.

And then finally, the enforcement of the laws you know how are the laws implemented and you see that the laws are implemented there is a whole mechanism for seeing that the laws are followed and there are consequences, there are penalty if you do not follow a law.

So, there is some sort of a force there is a lot of power in the enforcement of a law, the same cannot be said about ethics. When we are speaking about the ethical should or should not the there is no external force or external consequence of being unethical it is supposed to be more internal, the drive should come from within you know if you believe in conscience then that might be the motivator behind that is the source of your implementation in any way it is rooted in your will your own desire your own volition. So, it is driven by the values that you have, but not by the external legal mechanism. So, there are these important differences.

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**Law and Ethics: The differences**

- The relation between Law and Ethics may be understood as this:

**Overlap on certain points.**

- But what may be legally permissible still may be ethically wrong. Law of country  $x$  may allow different wage for the same work among different religious groups, but that is not morally right.
- What may be ethically right or unobjectionable may be illegal.  
E.g., Protest against coercive laws (Gandhiji's Satyagraha)

The relation between law and ethics we may conceptualize it like this at least this is my humble opinion that we may see it like this that you may think of it as a Venn diagram of this kind. There are enough things here in the overlap, where law and ethics would both agree, you pick about a behavior law would say it is wrong ethics would say it is wrong as for example, stealing what is not yours to misappropriate something that is wrong both in the legal sense and ethical sense.

Similarly, what is good you might find the law agrees that that is good and ethics also agrees that that is good. So, there are lot of similarities here in the overlap area, having said that we can still say, but there are areas where they do not merge. For example, there may be things in this area which is legal, but not necessarily ethical all right for example, I have given an example here that because laws depend on countries. So, a certain country may have formulate a law that for the same work they can legally pay different wages depending upon the religious origin of that person, now the religious group of that person. Suppose that law is there in a country, then what they are doing is discrimination for the same work, but it is legal, but it may not be still considered as morally right.

So, you have found something could be legal, but not ethical that shows a difference. Similarly, there might be things that are ethical, but not legal not strictly legal. So, for example, very very unfair laws coercive laws their laws, so what they allow people to do is something that you think can go, but it is not really something that you can say it is

ethical. So, there are these differences that one should keep in mind when we are talking about law and ethics.

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**Upshot**

- When we speak of Ethical Corporation, we do **not** merely mean legal compliance. Though, it may be the minimum expectation from such a Corporation.
- **Ethics begins where the laws fall silent.**
- Same is the case with Business Ethics: Issues which the laws do **not** cover, or where there is **no** clear guideline from the law on whether something is 'right' or 'wrong'. E.g.:
- **Grey areas.** Taking credit for someone else's work.
- **Ethical dilemmas:** An ethical dilemma is a conflict situation between at least **two competing obligations**: At least two difficult choices. Both 'right'! Usually, both cannot be chosen. Doing one implies not doing the other.
- E.g. Employee died in workplace accident. He was found to be **drunk**. Family wants compensation. Company does not want to pay. Union is threatening a strike. What is the 'right' thing to do?

So, therefore, the upshot of this is going to be like this, that when we speak up of the ethical corporation we do not mean necessarily just legal compliance we are not talking about a legally compliant corporation only, though it may be the minimum expectation from such a corporation that it is not behaving in an illegal manner. But that does not automatically make the corporation ethical, that would have been the case if law and ethics were identical, but we have just established that is not the case law and ethics are not the same.

So, that is one of first my first point. Second then in ethical corporation where would we see, where would we understand that the corporation is behaving ethically. Now, to that my submission is that ethics is sometimes seen more clearly when the laws are silent about something. There is no clear guidance from law, its not legally mandatory, but the person or the persons do something out of their own will and that is where you start to see for the first time that their behavior has gained an ethical dimension.

Same is the case with business ethics there are number of areas which are not covered by laws you know laws are general and they cannot cover every specific area. So, there are enough areas within business decisions where there is no clear guideline where there is no clear guidance from the law whether and you do not know whether something this is

right or that is right and that is where you exercise your value considerations to find out what would be the ethical way to do here what is the right thing to do.

Example have given for example, very gray areas you know you know what is clearly wrong what you know what is clearly right, but in between there are enough area that we would call neither black nor white, but large gray areas and these are cases where one needs to get the guidance from ethical considerations what is the right thing to do.

For example taking credit for somebody's work, somebody has done the work, but other person is taking the credit you know there is no law that says that, you have to do that you will speak about the intellectual property rights and so on. But suppose the matter is such that these are two friends and there is no never has been any legal agreement that this is my intellectual property you cannot take it you know, but suddenly the other friend decides to cheat on this friend and misappropriating the idea there is no law here, but is that the right thing to do and the answer would be coming from ethics. Similarly, there can be ethical dilemmas.

Now, what an ethical dilemma is? It is a very typical situation what it is? Is a conflict situation between at least two competing obligations when I say completing obligations I mean two duties and they compete with each other meaning this that they are providing you with at least two difficult choices; choices each of which might be right. You see if the choices were between what is right and what is clearly wrong you are not in a dilemma, you know which one is to do you still may not do it, but you know which one is the right thing to do. I am talking about situations where each option is equally right or each option is equally bad difficult. So, which one do you choose and why?

So, there is a almost like a stalemate situation and those are known as ethical dilemmas. For example, I have given a small example here suppose you here one day as a human resource person that the and employee has died in workplace in accident and which is very unfortunate, but it is also found that he was intoxicated at that time when this accident happened.

So, now the family has come to ask for compensation from the company and the company clearly is upset about the accident, but its also the fact that the employee was drunk, so company does not want to pay, on the other hand the family has talked to the

union, the union is after the company and threatening a strike to halt the work process and so on.

So, what is the right thing to do here, how do you resolve this there are number of choices? You may listen to this family and give them compensation and thereby create lot of problems for you in future because after all the person was drunk and then the workers may think that we can get away with that or you may not give any compensation to the family turn them away.

And what happens is that people are the workers are going to be tremendously upset, the union is going to continue with the strike idea and your production is going to be halted and its going land into other problems and so on or you can think about a partial compensation etcetera. So, there are a number of choices. The question is what is the right thing to do here and why?

So, in such cases; in such cases business ethics are supposed to be your savior to give you some action guidance on the situations all right.

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**Can a Corporation be considered as ethically responsible for its actions?**

- Debate: Can we assign ethical responsibilities to an artificial entity such as a Corporation? Or, is it incapable of acting except for its self-interest: A 'psychopath' of some sort? (Bakan, 2004)
- Business Ethics: **Yes, we can assign.** For:
  - (a) The Corporation has an internal decision structure, which results in situations where a Corporate decision is far beyond any individual's decision.
  - (b) The Corporation has its **own beliefs and values**, which manifest themselves in organizational culture. Many of its deeds, 'good' or 'bad' are traceable to that organizational culture.

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And then the next topic that I take on which I said I will in my lecture 3 early, that it is about accountability of a corporation and I have said that the issue is like this that the corporation is made of people. So, primary responsibility a primary accountability goes



to can be pinned on to the people, but can we also hold the corporation as ethically responsible for its actions.

Now, this there is a big debate in business ethics about this around this and lately that had been fuelled by some writers such as Bakan for example, who has said that you know a corporation by nature is being an artificial entity it can only pursue its own self interest and it is not capable of acting otherwise. If you ask it to be altruistic, if you ask it to be caring for others or pursuing everybody's interests it cannot. So, it has been compared to being a psychopath of some sort I mean who are incapable of the feelings of others.

Now, is that the case the corporation has to be treated like a self interest pursuing entity of a special kind and we cannot assign any ethical responsibility to it. Business ethics would say no we can still assign responsibility to a corporation, why? Because apart from the people inside the corporation, the corporation itself has an internal decision structure which is a process through which the corporation takes or makes its own decisions.

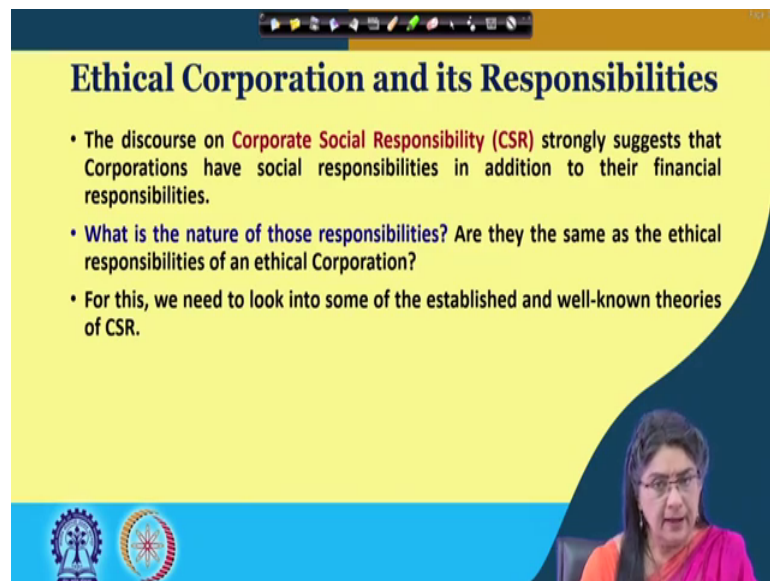
So, this is not exactly one individual or a group of individuals it is much more than that which results into a corporate decision. For example, when the corporation decides to launch a product it is not any one particular individuals decision it is not also a decision of a particular group, the corporation itself decides after going through various layers of decision structure it goes through it comes to a decision.

So, there is a structure by which the corporation makes its own decision and that is where we can pin accountability also because it has a capability to make a decision which we can clearly say its own right. So, this is like almost like saying that out of its own free choice it has chosen to do this.

So, this is a point and second is that the corporation is also clearly owner of values and beliefs, in this its almost like an individual its own believes and values are manifested in what we call organizational culture all right. It shows what are the priorities, what are its priorities, what does it believe in, what are its vision and how its carrying itself towards that vision or that goal and so and therefore.

So, the actions when we are looking at the corporate deeds corporate actions practices you can call them good or bad because they are linked to this internal value system belief system that is nothing, but the organizational culture. So, in other words what we have just heard that business ethics is going to say that corporations can be considered as ethically accountable, you can hold individuals in it accountable, but there is this entity called corporation and it too because of this kind this sort of reasons can be held as ethically accountable.

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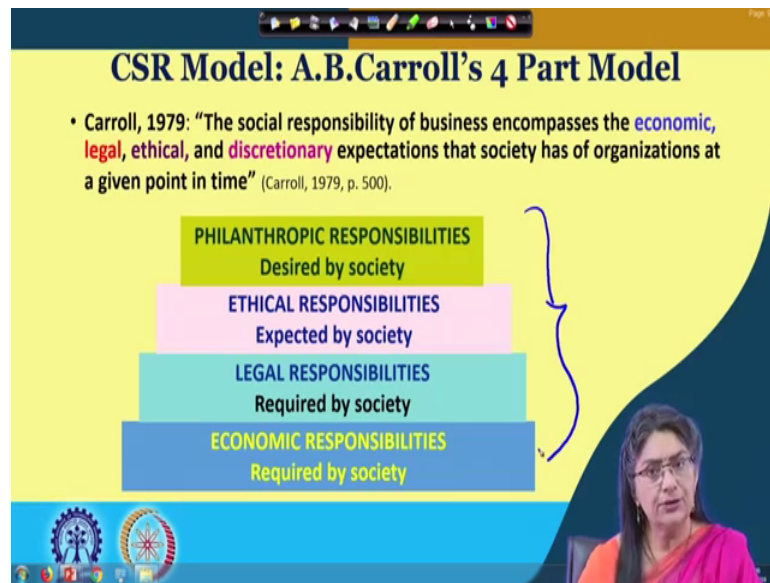
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### Ethical Corporation and its Responsibilities

- The discourse on **Corporate Social Responsibility (CSR)** strongly suggests that Corporations have social responsibilities in addition to their financial responsibilities.
- What is the nature of those responsibilities? Are they the same as the ethical responsibilities of an ethical Corporation?
- For this, we need to look into some of the established and well-known theories of CSR.

That was the ground on which we are now going to place this point that then if they are accountable if ethical corporations can be talked about as accountable to whom you can ascribe responsibility, then what are those responsibilities? Alright and that question we can discuss within the context of a technical concept called sorry concept called this Corporate Social Responsibility or CSR. So, this is going to give us the clear sort of an idea about what this responsibilities are and what is the nature of this responsibilities.

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When we are talking about CSR or Corporate Social Responsibility the very well known the most well known and very established model that we use is that of Carroll's the name is A B Carroll and it is a 4 part model. I have given a direct quotation from Carroll; Carroll has written extensively on a CSR or Corporate Social Responsibility, but his first article and the one that was a path breaker who came out in 1979 where is he is talking about the social responsibility of business and you take a look and he is saying that it encompasses economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time.

So, the responsibility is all of this, so we will try to see what he meant. So, first economic responsibilities, legal responsibilities, ethical responsibilities, philanthropic responsibilities or discretionary expectations and mind you that this is all, all of this is CSR. So, it is not that only one particular set is the responsibility of our organization according to Carroll all of this are actually corporate social responsibility.

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**Carroll on CSR**

- **Economic:** To produce goods and services and sell them at a profit
- **Legal:** To obey the law of the land ←
- **Ethical:** To do what is right, and fair, and good, beyond what is required by the law, even when not compelled by law to do so. E.g. Voluntarily withdrawing a hazardous product of its own from the market.
- **Philanthropic:** To do altruistic things out of compassion, and to the society, to the local communities. E.g. Donating to charities, providing infrastructural support to local schools.

✓ CSR is a multi-layered concept, but **not sequential** (Carroll, 1999).

✓ True CSR means **meeting all four layers simultaneously** (Carroll & Bucholtz, 2001).

So, first of all economic responsibility, what does he mean? Basically the economic activity of the organization for example, producing the goods and services and to sell them, so that you make profit and you remain solvent that is your economic responsibility. The economic responsibility has under layers for example, you have borrowed money or you have drawn capital from the market, you have to return that capital with good value to the investors, you have to pay salary to your employees and so on and there are this also everyday operations cost something.

So, all of this is under this economic responsibility which is considered by Carroll as the organizations social responsibility. Then there is the legal responsibility to obey or to comply with the law of the land, I have told you that this is part of that that is also social responsibility. So, the corporation which is engaged in illegal activities not showing responsibility all right, so that is there. And then comes this ethical responsibilities by which Carroll wants to mean to do what is right or what seems to be the fair thing to do beyond what is the call of the law.

So, what is required by the law that you are doing anyway its over and above what is legally required that is where you get to see the ethical responsibilities. For example, if it is a unsafe product you voluntarily recall the product. Before the law comes at you and say that you have to recall this the organization itself owns up a mistake and say that we would like to voluntarily recall all the unsafe products because we do not want to harm

the consumers. This is philanthropic which Carroll said is discretionary its up to the corporation whether they want to engage in this, but this is philanthropic in the sense that you want to do good, you know this is what altruism is all about, you want to serve people either society not just the local community, not just your consumers, but the society in general.

So, out of compassion for example, you donate to charities to good causes, good social causes or that you supply say water purifiers to the local schools which do not have those, so this is these would be philanthropic activities. Now, what we are seeing here that Carroll clearly thinks that CSR or Corporate Social Responsibility is a multi layered concept you saw the stats. And the point; however, here is that it is not sequential this is Carroll speaking in 1999, he made it quite clear that even though it looks like a stack step by step sort of a model 4 part model, but actually it is not sequential.

So, he has not saying that first you meet the economic responsibilities, then you meet the legal responsibilities only then you think about ethical responsibilities it is not like that. In fact, in 2001 as you can see here Carroll and Buckholtz made it very clear that, true CSR means meeting all four layers simultaneously. So, that is the challenge how you are going to meet all of them at the same time.

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**CSR: Next Generation understanding**

- **Simon Zadek:** 1<sup>st</sup> Gen CSR: Occasional, only in ways that do not interfere with their commercial success: A gesture to the society. 2<sup>nd</sup> Gen CSR: A long-term strategy. 3<sup>rd</sup> gen CSR: A regular, and consistent voluntary function by business. Pro-active business: Beyond a mere 'good' company. CSR integrated with mainstream business activities.
- **Wayne Vissar:** The traditional model of CSR (CSR 1.0) has failed. For a number of reasons. E.g.: (a) CSR remained peripheral activity. (b) CSR remained incremental: Companies did it according to their pace and discretion.
- **CSR 2.0: Age of Responsibility.** Business must take responsibility for their actions. CSR is to be made part of the DNA of the organization: Embedded in corporate culture, strategy, governance systems.

There are many new ideas about CSR which I am calling next generation understanding of CSR and I am just going to touch upon them. I have talked about the most popular and

the most established model that is Carroll's, but here is something from Simon Zadek who has talked about CSR saying that you know there are there have been various generations of CSR. Earlier CSR used to be only occasional activity by business only when societies after them company would engage into CSR, but in a way that does not interfere with their mainstream commercial activity, so that is 1st generation CSR.

The 2nd generation was about making it CSR as a long term strategy. So, that it is not occasional it is somehow connected to the business activity, but ultimately it is driven by its own self interest strategy here means what would be good or beneficial for the company itself. Look at what Zadek is saying about the 3rd generation CSR that, it is a proactive choice of the business to take up CSR as its duty.

So, it is a voluntary function consistent with its mainstream activity where it is integrated with the mainstream business activities which then it is a choice that business is taking on its own this is how Zadek has visualized what CSR should be.

Wayne Vissar is also thinker well known thinker in CSR of today and what he is suggesting that the traditional model is simply have to be replaced by a new understanding of CSR. He has talked about the earlier traditional model as CSR 1.0 and the one that he endorses is called CSR 2.0. And he has said that for various reasons CSR 1.0 has failed it is clearly seen that the companies have not been able to deliver the social good that they were supposed to for variety of reasons.

So, now he says that the age of responsibility has come and business must out of its own choice should take up more responsibility and watch the term that he is using that, it has to be made part of the DNA of the organization that is embedded from the very core of the business at every single level the social responsibility will have to be integrated in corporate culture, in their strategy, in their governance, in their product design and so on so forth. So, this gives us some idea about how currently CSR or social responsibilities of business our corporation is being thought about.

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**Upshot**

- The responsibilities of an ethical Corporation is a much larger set than its financial responsibilities.
- Society increasingly expects a business to voluntarily own up responsibility for its actions, and particularly for those problems which are partly, or wholly, caused by business: Corporate accountability
- New mandate is that ethical considerations should be integrated into Business policies and decisions: DNA of the organization.

Now, what is the upshot of this discussion in connection to the ethical corporation? What I wanted to place here is that if you look at it from the lens of CSR or Corporate Social Responsibility, then the responsibilities of an ethical corporation is going to be a much larger set than its mere financial responsibilities. Whether you want to call it corporate social responsibilities is not the issue, the idea is that you need to understand that there are much more in the basket of obligations for a ethical corporation, what exactly would go in that we are going to elaborate in the coming weeks, but it is a much larger than its mere financials responsibilities.

Second, you saw in the discussions of Vissar and Zadek that the society is increasingly expecting business to voluntarily to proactively think on behalf of society where it can make difference. So, particularly a society once corporations to own up accountability for problems that they have created either partly or wholly, so this is where the corporate accountability discussion needs to come in.

And the new mandate you heard from Vissar and others that ethical considerations are not just a layer, they must be integrated well enough into the business decisions and policies. So, this was the main reason why I brought in the discussion of corporate social responsibility.

I have given some references here in case you want to read up more on the points that I have mentioned. For example, this is Carroll's 1979 article, this is 1991 and I have told



you that he has written many more, but this might give you an idea about just to start reading about corporate social responsibility.

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**References:**

- ❑ Carroll, A.B. 1979. A three dimensional model of corporate social performance. *Academy of Management Review*, 4: 497-505. ✓
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- ❑ Zadek, S. *Civil Corporation: the new economy of corporate citizenship*. London: Earthscan. ✓
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This is Zadek who I was talking about and this is Vissar his writings are available. So, these are some just sharing the references in case you want to read extra on this.

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**Conclusion:**

In this module, I have discussed:

- ✓ Why and how Ethics is different from Law
- ✓ Whether a Corporation can be viewed as ethically responsible for its actions
- ✓ Most established and well-known model of CSR: carroll's 4 part model ✓
- ✓ Next generation understanding of CSR ✓

And then this is where I am going to close the session also that, what we have done today is to make a distinction between ethics and law. We have also said whether a corporation can be viewed as ethically accountable responsible for its actions.



And then we have talked about whether this if the corporation can be held as ethically responsible, then what would be how would we even visualize conceptualize those responsibilities, I have taken the help of this concept called corporate social responsibility to edge out the outline of some of those responsibilities and then I have given you some of the current understanding of CSR.

So, this is what we have discussed today and I hope this was understandable to you and we will come back with more and then subsequent lectures.

Thank you very much.