

**The Ethical Corporation**  
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**Lecture – 05**  
**Why should a Corporation be Ethical**

Hello, we are back. For the first week the last module for the first week; we are still talking about Ethical Corporation, but today we are going to take up the topic the reasons, Why Should a Corporation be Ethical. We have talked about what the corporation is and what is ethics, what could be characteristics of ethical corporation? Now the time has come to talk about why, what is in it for a corporation to be ethical?

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Concepts Covered:

- Reasons why a Corporation should be ethical
- The situational or contextual reasons ✓
- The ethical reasons ✓
- The strategic or pragmatic reasons ✓

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So, this is where we are going in. So, the concepts that I am going to cover here are for example there are many reasons here, but I have tried to classify them in this kind of way that, there are certain reasons which are embedded in the context or the situation in which the business today operates and I am going to call them the situational or contextual reasons which sort of makes a case why business or corporation today should be ethical. Then purely ethical reasons that is reasons grounded in the ethical theories that we have heard and then finally, the strategic reasons, what could be the corporation strategy related reasons you know to be ethical. So, this is the general classification of the reasons that we will follow in this talk.

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**Why should a Corporation be ethical?**

- There are many kinds of reasons. They may be broadly classified into three groups:

1. Situational or contextual
2. Ethical
3. Pragmatic or strategic

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As said there can be many reasons, but we have group them in this way in the 3 classification. So, without further I do, let us go forward to talk about the very first kind namely the situational or the contextual reasons.

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**Why should a Corporation be ethical?**

1. First, the situational or contextual reasons.

1A. The power, wealth and influence of business on society is at an all time high. Particularly, those of the Multinational Corporations (MNCs).

E.g. Total global revenues of

- IBM, 2018: About US\$80 Billion
- Reliance Industries, 2018: about US\$55 Billion

Sales of Exxon, Walmart: Larger than the GDP of many countries.

Starbucks has about 240,000 employees worldwide. It operates in more than 70 countries with about 30,000 stores in different locations.

The 'Starbucks effect': A Starbucks store opening increases property and home values in the neighborhood.

Corporations, operating across borders, often exert influence over governments, and laws: They have been called "Quasi-governmental institutions" with enormous power and influence over societies and over the people.

The slide includes blue brackets on the right side grouping the examples and the Starbucks effect. At the bottom, there are logos for IIT Bombay and IIT Madras, and a video inset of a woman speaking.

First of all the situation in which we are looking at this question, why a corporation should be ethical is very different from earlier situations in which business used to operate. One of the things that people have noticed is that the power and the wealth of influence of business has grown.

So, if you talk about a corporation and is it has become a really a megalith entity. In terms of its wealth I have given some examples here if you take a look at this, these are really enormous sums, but that is what this corporate entities are known for because of this they represent a huge amount of wealth and power. In fact, it is said that some of the companies are so, wealthy that their total revenue is larger than the GDP of the many countries.

Moreover, if we talk about influence, the growing influence of business and society is all time high. If you take the example of for example, this ; it has 240,000 employees or more than that worldwide operating in 30,000 stores all over the world that is a presence that is a presence, but there is also something called the Starbucks effect. Wherever, a Starbucks opens it effects the property value in that neighborhood in the positive way it increases the property value that shows that peoples perception of this company and its presence in the neighborhood has started to influence, how we look at each other and how we look at its presence amongst us in the society.

There is also the fact that the influence of corporations on govern governments in social policies, in even laws you know on the lawmakers and therefore, through the lawmakers on regulatory bodies or even in the formulation of laws are also recorded. So, its established that they have become in many countries the quasi-governmental institutions. Almost like government in fact, they are filling up the gaps that the governments leave behind in those countries. So, talking about the very rise of power, wealth and influence of the corporations.

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**Situational / Contextual reasons**

- **Corporatocracy:** Many people are **uncomfortable** with the rise of clout, wealth and influence of the Corporations: Is our world run by the governments , or by the big Corporations to satisfy their own self-interest?
- They hold : Consolidation of so much power, wealth, and influence in the hands of the Corporations is not good for a society and for our freedom. Power must be reigned in by **ethical considerations**; otherwise it becomes a social threat.

Now, this has caused many amongst us to be somewhat uncomfortable because you know we talk about sudden rise of power or when an entity becomes too big, its becomes difficult to control. So, given that there is concern among the larger society that whether we are living in something called the corporatocracy, you know we talk about democracy, we talk about autocracy these are different kind of rules, different kind of governance that exist in the countries.

And corporatocracy means that we are being run by the corporations. People are posing this kind of question, that is it true that we have governments which are independent or actually we are being run by these big corporations and in the facade we just have the governments and these corporations are running the world to satisfy their own self interest you know this is one kind of perception of the situation. This shows that people there is some sort of a genuine concern among some people.

So, they hold that you know there is too much power; too much power and wealth and influence in the hands of this corporate entities, which is not very good for the society because society they fear is losing control over these entities. Therefore, in order to reign that power there has to be ethical considerations. The question is why a corporation should be ethical in these days and one first point points out that because of their rising power lot of people are really disturbed that their influence in the society or their power in the society is too much therefore, it should be reigned and checked and they should

show some ethical considerations, otherwise they become a social threat which is not good for anybody.

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**Situational / Contextual reasons**

1B. **New concerns:** Huge Environmental Concerns because of business activities

- Global warming
- Global Climate change
- Carbon footprint

A Corporation should act ethically and responsibly with due respect to these new concerns.

1C. **New paradigms:** Sustainable development, Triple Bottom Line (TBL), U.N. Millennium Development Goals (MDGs), Sustainable Development Goals (SDGs)

New pressure groups: Civil society movements, NGOs

There are the new mandates that the Corporation must align its own goals with.

Then there are new concerns and new paradigms. Lately some kind some environmental concerns have taken over everybody's life. We are hearing about global warming global climate change, living carbon footprint and so, on we are being told that the glaciers are melting and that the sea level might rise and so on these are huge environmental concerns. Its not the concern of one country this country or that country, but it actually affects the entire world. These are new concerns because if you go back by few decades they were not there maybe they began at that time, but the concerns were not as high as it is today.

So, this is a situational reason why we are asking the corporation to act more responsibly and more ethically because these new concerns are there in the society and business must be responsive to those concerns. These are the new paradigms that is another reasons. We because of variety of reasons we now talk about sustainable development, which we are touched upon triple bottom line. United Nations has brought in millennium development goals or MDGs which after 2015, they labeled as sustainable development goals. The sustainable development goals include many more goals than the MDGs, but these are the new paradigms, new benchmarks for assessing our behavior, our economic behavior, our technology choices and our business behavior.

On top of it there are also new pressure groups these are groups that can affect the way it business operates and therefore, they bring in also some power relations with the corporations. So, these are some of the reasons that are embedded now in today's world and therefore, business needs to not only be aware of them, but also make some changes in its behavior and that changes towards ethical considerations.

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**Situational / Contextual reasons**

1D. Change in **the economic environment** in which a Corporation carries out its operations:

**Globalization** : "De-territorialization", global trade. New set of international competitors. New investment flows: Foreign direct investment. New markets have opened up. New international set of consumers. New tax regulations.

1E. **The Regulatory environment** has changed: Steeper laws governing corporate governance after the major financial scams.  
India: **Companies Act 2013**. USA: **Sarbannes-Oxley Act, 2002**.

1F. New **audit and compliance standards**: **Global Compact (UN)**, **Social Accounting (SA) 8000**

There is change also in the economic environment. The way business used to be done earlier the sea change that has happened is because of the globalization. In India there was liberalization of economy, but it also there was also an opening up. The way trade used to happen after globalization it now follows a different path. Because there is no more any country barriers, where you can do business, who can you do business and so on. And therefore, there are new competitors earlier, it if when you had only in your country the nature of the competitors were different, but now you have to play with the international players and therefore, unless you understand their rules of game. If they follow certain norms you were also supposed to follow certain norms.

New investment pattern have shown up namely the foreign direct investment is now possible, you do not have to be in another country to have access to the new markets and also there is a new set of consumers. So, there are lot of changes that have happened this leads to new expectations from corporations and therefore, that constitutes another reason why a corporation today should be ethical, should be really looking into its own

practices very carefully. We must also mention that the regulatory environment also has changed in many countries not just in India, but in many countries.

Now, the laws that apply to business behavior have become steeper. We will talk about corporate governance separately, but this is about how the corporation governs itself and lately in the last 2 decades they have been really big changes in terms of the regulation over the way the corporate governs itself. Even our Companies Act in India has undergone lot of changes and this is the new revised form, where it is said what is expect legally from corporate behavior.

There are also new audit and compliance standards that one may try to look into and for example, United Nations has given certain guidelines some principles how a corporation should behave, what to avoid, what to engage in and what not to engage in and then there are also to take a look at this is called social accounting. SA 8000 this is not pure accounting, but how you are performing socially has become also a benchmark to SA's business behavior.

So, these are some of the reasons why we can call that situation has changed and therefore, in all there is enough reason for business to also look into why they should change their way of behavior.

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**Why should a Corporation be ethical? Ethical reasons**

2.A. A business fulfils the society's needs for certain products and services. In return, the society gives it the "license to operate". Registration, incorporation. That license is not unconditional. It is not a license for business to do whatever it wants.

An unwritten social contract between business and society : To stay within certain limits. One such limit is to avoid unethical practices.

2B. A business cannot operate without the use of social resources: Land, water, people, capital. It is only fair that in return a business should "give back" in terms of practices that are aligned to the expectations of the society: To act ethically and responsibly, and not misuse or abuse these resources.

Let us now talk about if those were situational or contextual reasons let us talk about ethical reasons. What is there from the ethical theory can be argued that why business should behave ethically. First of all that note that business is allowed by society to operate in it; in return business gives the society certain products and services which society cannot produce for itself.

So, it is that kind of a two way relation, but remember society gives it the license to operate its not the other way around. This whole we have talked about the process called incorporation or registration of a company. Those are legal and formal processes which are supposed to tell business, that we are giving you the permission to operate, but note that that license is not unconditional that is society is not telling that you can do whatever you want from this point forward.

So, it is not a free license, its not an open permission blanket permission. In fact, people say that there is an unwritten contract between business and society that you operate in the society as long as you stay, within certain expected limits. That is you are not going to impose indiscriminate harm on society, just because you want to make profit. So, these are some of the understood limits of business behavior. So, one such limit therefore, is to avoid unethical practices, which we can convert into the positive formulation that business should consciously try to be ethical that is one reason.

Second point is that a business cannot function without taking, without borrowing, without making use of what is actually societal resources. We are talking about the land, we are talking about water, we are talking about fetching capital or pulling people in these are social resources in a way business is dependent on the society. So, its only fair that in return we are talking about justice here. So, its only fair that in return a business should give back in terms of practices that are more aligned to what society expects from it.

What does society expect from business is that, it should act once it has this resources that it should use those resources ethically and responsibly and not misuse or abuse this resources and this is in nutshell is to say that it is a corporation should act ethically.

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**Ethical reasons**

2C. A business also has to rely upon the **cooperation and contribution** from various groups in the society: Local communities, customers, employees, suppliers etc. Hence, it is a matter of **justice** that these groups and their interests deserve due consideration from a business. These groups also have **'rights'**; which a business has no right to violate.

2D. Corporate activities are known have **impact** on persons, communities, societies, and on the environment through their business operations, products and services. In case of **bad impact**, e.g., pollution, pollution-related health problems, **unsafe products**, the consequences are **enormous**. Therefore, **Corporations must act judiciously, with due considerations to 'what is right', 'what is good'**.

The slide features a yellow background with a blue header and footer. The header contains the title 'Ethical reasons'. The footer contains several small icons, including a gear, a person, and a globe. A small video inset in the bottom right corner shows a woman with glasses speaking.

There is also further ethical reasons here for example, you know the this previous point can be extended also in this way that, business has to can only thrive provided it gets the cooperation and contribution from various groups in the society, we have briefly talked about stakeholders.

So, it has many stakeholders in the society whether it is local community, whether it is the employees or customers, but from these groups a business actually require active cooperation and contribution. So, therefore, if business needs this, then its a matter of fairness and justice that business should also protect their interest that they business should give due consideration to their interests also. Moreover, each of this groups that we have talked about they have rights for example, think about consumers they have rights, if you think about employees they have rights which a business has no right to violate therefore, all these constitute the reason why business should also be ethical.

If we come to impact then everybody knows that corporate activities have enormous impact and the impact does not stay only within the company, it spills over to the communities, to societies and to environment through various operations that we can think about, through their products and services business really affects all around. And the if you were talking about the mega corporations then their impact is even larger. So, in case of bad impact if it is good impact, it reaches out to everybody, but if it is bad impact please note it also affects everybody. We are talking about for example, pollution

such as an oil spill you know gulf of Mexico oil spill affected an enormous number of people areas other species, it affected livelihood, it affected the water quality for months.

So, the impact if you take a look into it is really large, the bigger the corporation is the bigger the impact would be. If the product is unsafe for example, there is enormous far reaching effect impact for example, think about unsafe cars. The people the unsuspecting customers who might use the car, you know think about the harm in their lives the victims and their families what they go through and so on.

Therefore, given this that the consequences are enormous you have to say the corporations must be responsible. They must act with a lot of judiciousness that they should think about what is right and what is good even when they are making their own decisions, because their decision do not stay only within the company it has enormous impact on others as well.

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**Why should a Corporation be ethical? Strategic or pragmatic reasons**

**3A. Long-term Corporate value:** Ethically sound and exemplary practices to win the trust of the society, and to survive long in the society. Being an ethical corporation increases social acceptability of a Corporation. It is in the long-term interest of a Corporation to be pro-social and pro-ethical.

**3B. To create a brand value and to build a brand reputation.** Ethics as strategic brand differentiator: To the consumers, employees, investors, to the society in general.

**3C. To avoid legal disputes, penalty and fines, and to ensure greater corporate independence from the Government.**

Let us now talk about the last group that is the strategic reasons. You know we have talked about the situational or the contextual reasons and then this was earlier was ethical reasons, let us talk about what could be the strategic reasons. So, how the corporation might have some value created by being ethical, the first point is about that. That being ethical creates a long term corporate value; you know exemplary practices by a company stays long in the memory of the society.

In the beginning of this course I have mentioned about how Merck and company came out with a medicine, apparently the medicine was for a minority in Africa very poor people they could not give the price also. But that if you recall that behavior by Merck and company they did not know at that time, but it stayed on peoples mind and it give them an edge. It created a value for the company itself; it won the trust of the society and that helped it to become a notable company in the later days.

So, being an ethical corporation in other words what it increases is social acceptability of a corporation, which is which pays in the long term because you stay in the that the society remembers that you have done this for the society and that gratitude that trust it builds up a relationship with the company. So, long term corporate value has been seen to be connected with being ethical. Think about the Indian companies that you know to be exemplary in their practices or the companies that you recall very quickly you will find are those who have stayed very close to society and its expectations.

So, building up long term corporate value, then there is also connected to the same point is that ethical behavior is also brand differentiator. A brand differentiator; if there are many in your segment if there are many businesses in the same segment more or less behave with the similar product or more or less with the similar services how do you become unique, how do you stay in the mind of the society and the consumers as a different kind of a company and that is where being ethical pays off.

So, this point is about how ethics can be a strategic brand differentiator, people remember and people remember you by your good activities. So, you know there were times when the cosmetics industry used to be blamed or used to be looked down for their animal testing or for using synthetic elements, which are harmful in the long run for human skin or for human eyes and so on. And then came a company which said that we are going to be totally natural our ingredients are all going to be natural and the procurement of those natural elements are going to be also ethical and we would like to give you total value to the customers without hampering the environment and so on.

This little expressions of ethical behavior caught the attention of the consumers and people consciously started choosing the products from that company. So, this is the second point that brand value, it creates brand reputation. Third point is that being ethical pays off also to avoid lot of legal wrangles. You know no company likes to get involved

in legal disputes or long drawn cases or in penalty and fines imposed by the government or the regulatory bodies. In fact, where you start to show responsibility, the government sort of says that we do not have to probe into this matter because the company is quite conscious by itself.

So, one of the strategic benefit of being ethical is that, you stay away from the legal disputes, legal wrangles and you also avoid a lot of government supervision.

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The slide is titled "Strategic or pragmatic reasons" in bold black text. It contains two main points:

- 3D. Access to capital:** With the increase of discreet, ethically aware investors, surveys show that Corporations which exhibit signs of being ethical and responsible towards the people, and environment, along with financial handling, are favoured by the investors.
- 3E.** Surveys show employees of an ethical corporation show better employee commitment and loyalty to the organization.

Hand-drawn blue lines and arrows highlight key phrases in both points. A video inset in the bottom right corner shows a woman with glasses speaking. The slide also features a navigation bar at the top and logos at the bottom left.

And then this these are the last few strategic reasons we are talking about how to connect being ethical with the interest of the corporation. So, one of the very good reason for being ethical is that, it actually these days helps the corporation to get capital. We are talking about investors who are ethically aware you know there is a very specific group of people who are known as socially aware investors, socially responsible investment.

So, these are people who do not only look at the economic performance of the company, but they also look at the social performance for example, how the corporation is looking at, how the corporations behaving with the employees with the customers and so on. If there is any harmful product in that the company is being using or did not even bother to won the consumers when it came to know about the harmful effect of that product these are considered as irresponsible socially irresponsible activities by corporations. And then here comes also the other kind of a benchmark that you these investors they look into whether the companies engaged in environmentally irresponsible activities or not.

Similarly, there are investors who would look into whether the corporation is engaged in any child's labor or bonded labor or they are supporting some military junta which is very very oppressive. Now these are concerns before and unless and until these concerns are satisfied this investors would not put their money into that company. So, this is known as socially risk responsible investment. Now why I am mentioning this because you know we all know that Dow Jones is an index for performance of companies, but there is also a separate kind of index that is called the DJSI where the social performance, socially responsible investors also look into, with this kind of a new idea paradigm in investment it pays for the company to be ethical.

So, avoiding financial scams is one; to remain solvent financially certainly is plus point, but on top of it what kind of responsibility you are showing towards society and towards environment also becomes a positive characteristic for attracting capital. And finally, the last point is here that study show that the ethical corporation attracts talent and also can retain talent. Its seen that people employees prefer to engage with corporations that have an ethical reputation and in fact, there is increased loyalty to that organization.

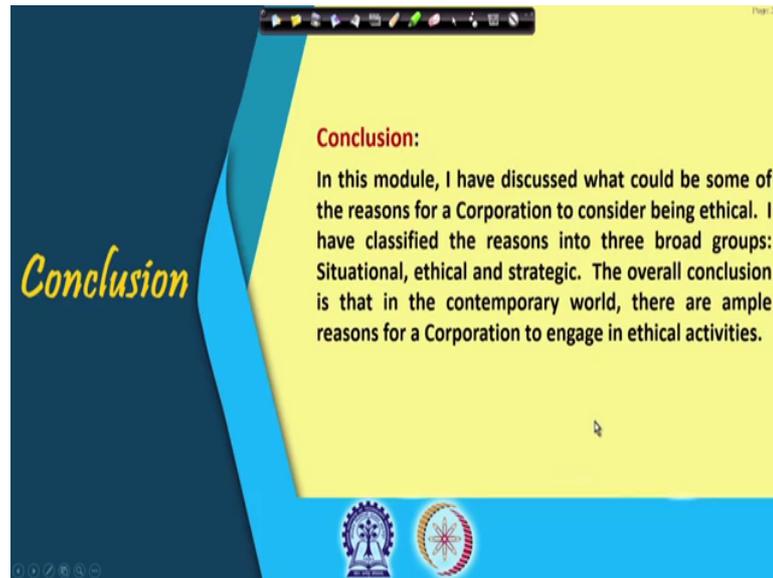
So, in order to attract talent in the corporation as well as to retain them being ethical is a very good reason. So, these are some of the strategic reasons that I thought would be helpful here.

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I have given also some references for you to follow in case you want to read more.

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But overall what we discussed today are what could be some of the reasons to consider why a corporation should be ethical. What I did was to categorize these reasons into three broad groups namely situational, ethical and strategic and overall the conclusion was that in today's world there are ample reasons for a corporation to engage in ethical activities. So, this has been where our session today is going to end, we will take up other topics from next week, but I hope this has been an enjoyable session for all of you.

Thank you very much.