



UNIT-3: Introduction to Business Ethics

Topics to be covered: Business ethics: meaning, importance, policy, and code of conduct. Ethical concerns of stakeholder: Functional area ethics (marketing, finance, and human resource); ESG consideration and stakeholder expectation. Regulatory framework: Basic concept of BRSR, GRI and CSR reporting.

3.1. Introduction — Business Ethics: Meaning, Importance, Policy and Code of Conduct

3.1.1. Meaning and Definition of Ethics

The term "ethics" is derived from the Greek word "ethos" which refers to character, customs, or accepted behaviours. The Oxford Dictionary defines ethics as "the moral principle that governs a person's behaviour or how an activity is conducted." The synonyms of ethics as per Collins Thesaurus are — moral code, morality, moral philosophy, moral values, principles, rules of conduct, and standards.

Ethics, therefore, is the systematic study of what is morally right and wrong, fair and unfair, good and bad — and why. It provides a set of principles that guide human conduct. In a business context, ethics tells us not just what is legally permitted, but what is the right thing to do.

Ethics — Core Meaning: "Ethics is the branch of philosophy that deals with questions of right and wrong conduct. It provides standards and principles by which human actions — and the actions of organisations — can be judged as morally acceptable or unacceptable."



3.1.2. Meaning and Definition of Business Ethics

Business ethics is a form of applied ethics or professional ethics that examines ethical principles and moral problems that can arise in a business environment. It is also known as corporate ethics. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organisations. Baumhart defines: "The ethics of business is the ethics of responsibility. The businessman must promise that he will not harm knowingly."

"Business ethics refers to the standards of conduct that guide how companies and their employees make decisions and interact with customers, stakeholders, and society."

In simple words: Business Ethics is the application of ethical principles to business decisions and behaviour. It asks: Is this decision not just profitable and legal, but also fair, honest, and good for society?

❏ **Example:** Gautama Buddha described the ideal trader as a honey bee — it collects honey from the flower without harming it, and in doing so, actually helps the flower by pollinating it. Similarly, a business should earn profits without harming consumers or society — and ideally, should contribute to society's growth in the process. This is the true spirit of business ethics.

3.1.3. Characteristics of Business Ethics

Business ethics has several defining characteristics that distinguish it from mere legal compliance and align it with a deeper commitment to moral conduct and social responsibility.

Based on Moral and Social Values

Business ethics is rooted in values like honesty, fairness, integrity, and social responsibility. It goes beyond what the law requires.

Relative Concept

What is considered ethical may differ across cultures, countries, and industries. For example, gift-giving practices in business differ across nations.

Applied Ethics

Business ethics is practical — it applies general ethical principles to specific business decisions and situations.

Dynamic

Ethical standards change over time. Practices once accepted (child labour, environmental dumping) are now considered unethical.

Universal in Application

Business ethics applies to all levels — individuals, departments, and entire organisations.

Goes Beyond Law

Legal compliance is the minimum. Business ethics asks for more — fairness, transparency, and social responsibility even when the law does not require it.

3.1.4. Importance of Business Ethics

Business ethics is not merely a moral ideal — it has direct and measurable benefits for businesses. The following points explain why ethics is important in business:

- 1.Trust and Reputation**
- 2.Long-Term Success**
- 3.Employee Satisfaction and Retention**
- 4.Legal Safeguards**
- 5.Competitive Advantage**
- 6.Social Responsibility and Sustainability**
- 7.Investor Confidence**
- 8.Avoids Regulatory Intervention**

- ❑ **Example:** Tata Group is one of India's most respected conglomerates, not merely because of its size, but because of its century-long commitment to ethics — from J.R.D. Tata's pioneering worker welfare practices to Ratan Tata's principled approach to governance. This ethical reputation has been Tata's most durable competitive advantage.

3.1.5. Ethical Policy in Business

An Ethical Policy is a formal statement by an organisation that describes the ethical standards and values that will guide its decisions and conduct. It communicates to employees, customers, and stakeholders what the company stands for and how it will behave.

Key elements of an Ethical Policy:

- 1.Mission and Values Statement:** A clear articulation of the company's core values — integrity, respect, fairness, accountability.
- 2.Stakeholder Commitments:** How the company will treat employees, customers, suppliers, shareholders, and the community.
- 3.Specific Prohibitions:** Clear statements of what is not permitted — bribery, conflict of interest, discrimination, insider trading.
- 4.Reporting Mechanisms:** How employees can report unethical behaviour (whistleblower protection, ethics hotlines).
- 5.Consequences for Violations:** What happens when the policy is breached — disciplinary action, termination, legal action.
- 6.Review and Update Process:** How the policy will be reviewed periodically to stay relevant.

Why Companies Need an Ethical Policy:

- Provides clear guidance to employees when facing ethical dilemmas.
- Protects the company from legal and reputational risks.
- Builds stakeholder trust by making values explicit and public.
- Enables consistent decision-making across all departments and levels.
- Required under law for listed companies (SEBI regulations require companies to adopt a Code of Conduct).



Example: Infosys has a publicly available Code of Conduct and Ethics Policy which covers conflicts of interest, anti-corruption, fair dealing, and whistleblowing. This policy is one reason Infosys is consistently ranked as one of India's most ethical companies.

3.1.6. Code of Conduct

A Code of Conduct (also called Code of Business Conduct or Code of Ethics) is a formal written document that sets out the ethical rules, values, and expected behaviours of everyone in the organisation — from the Board of Directors to junior employees. It is the practical application of the company's ethical policy.

Code of Conduct — Definition: A Code of Conduct is a set of rules outlining the norms, responsibilities, or proper practices for an individual or an organisation. It translates the organisation's values into specific, actionable standards of behaviour.



Content of a Code of Conduct — The Code typically includes:

- **Company Values** — the core principles the organisation upholds.
- **Avoidance of Conflict of Interest** — employees must not let personal interests interfere with company decisions.
- **Accurate and Timely Disclosure** — in reports, filings, and communications to regulatory bodies and public.
- **Compliance with Laws** — including Insider Trading Regulations, labour laws, and competition law.
- **Maintaining Confidentiality** — of company affairs, trade secrets, and customer information.
- **Non-Competition and Fair Dealings** — employees must not compete with the company or engage in unfair practices.
- **Standards for All Stakeholders** — how to deal with customers, communities, suppliers, shareholders, competitors, and employees.
- **Prohibition of Corporate Opportunity Misuse** — directors and senior management cannot take business opportunities for themselves or their families that belong to the company.
- **Annual Review** — the Board must review the adequacy of the Code every year.
- **No Waiver** — no one — not even the Chairman or CEO — has authority to waive the Code for themselves.

Common Principles Found in Most Codes of Conduct

- Use of company's assets only for authorised purposes.
- Avoidance of conflict of interest in all forms.
- Avoidance of compromising on commercial relationships.
- Avoidance of unlawful agreements (cartels, price-fixing).
- Avoidance of offering or receiving monetary or other inducements (bribes, gifts beyond permitted limits).
- Maintenance of confidentiality of business information.
- Collection of information from legitimate sources only.
- Safety at workplace — ensuring a safe and harassment-free environment.
- Maintaining and managing records accurately and transparently.
- Free and Fair Competition — competing honestly without predatory practices.
- Disciplinary actions for violations of the Code.

Applicability: The Code of Conduct typically applies to the Board of Directors and all employees at Officer level and above. Many companies also extend it to all employees and even third-party vendors.

How to Create a Code of Ethics (Process):

- Define the organisation's most important guiding values.
- Formulate behavioural standards illustrating how those values apply to specific roles.
- Review existing procedures to see how values are currently applied.
- Establish systems and processes to ensure the Code is implemented and effective.
- Actively involve Boards and senior management in debating and deciding the Code — it cannot be copied from a template.



Ethical Policy vs. Code of Conduct

Aspect	Explanation
Ethical Policy	Broad statement of values, principles, and commitments. It is the 'why' — why the company acts ethically.
Code of Conduct	Specific rules of behaviour derived from the Ethical Policy. It is the 'how' — how employees should act in practice.
Scope	Ethical Policy covers the whole organisation's philosophy. Code of Conduct gives specific rules for specific situations.
Legal Requirement	Not always legally required (but expected). Code of Conduct is required for listed companies under SEBI regulations.



3.2. Ethical Concerns of Stakeholders — Functional Area Ethics and ESG

3.2.1. Who Are Stakeholders?

A stakeholder is any individual, group, or organisation that has an interest in, or is affected by, the activities and decisions of a business. Unlike shareholders (who own the company), stakeholders include

Type	Examples
Internal Stakeholders	Employees, managers, Board of Directors, shareholders
External Stakeholders	Customers, suppliers, creditors, government, regulators, community, environment, media

Every functional area of a business — marketing, finance, human resources — faces specific ethical challenges in dealing with these stakeholders. These are called Functional Area Ethics.



3.2.2. Marketing Ethics

Marketing ethics deals with the principles that guide the marketing activities of a company — advertising, pricing, product decisions, and distribution. Unethical marketing can deceive consumers and harm society.

Key Ethical Concerns in Marketing:

- 1.False and Misleading Advertising
- 2.Deceptive Pricing
- 3.Targeting Vulnerable Groups
- 4.Product Quality and Safety
- 5.Environmental Claims (Greenwashing)
- 6.Invasion of Privacy
- 7.Planned Obsolescence

❏ **Example:** Maggi Noodles Crisis (2015): Nestle India faced a massive ethical and legal crisis when Maggi noodles were found to contain lead beyond permissible limits. The ethical issue was not just the safety failure, but also the initial denial and the delay in taking responsibility. This caused massive reputational and financial damage.

Ethical Marketing Principles



Truth in advertising

All claims must be substantiated.



Fairness

Do not exploit consumers' lack of knowledge or vulnerable situations.



Respect for consumer **autonomy**

Give consumers accurate information to make informed choices.



Privacy protection

Collect only necessary data and use it only with consent.



Accountability

Take responsibility for product failures and respond transparently.



3.2.3. Finance Ethics

Finance ethics deals with the moral dimensions of financial decision-making, reporting, and management. Financial decisions have enormous impact on investors, employees, creditors, and society.

Key Ethical Concerns in Finance:

1. Financial Fraud and Manipulation

2. Insider Trading

3. Misuse of Corporate Funds

4. Creative Accounting

5. Tax Evasion vs. Tax Avoidance:

6. Conflicts of Interest

7. Executive Compensation

Example: Enron Scandal (USA, 2001): Enron Corporation falsified accounts using special purpose vehicles to hide massive debts and inflate profits. Its auditor, Arthur Andersen, failed to flag these irregularities (and actually participated in concealment). When the fraud was exposed, Enron collapsed, thousands of employees lost their jobs and pensions, and Arthur Andersen — one of the world's biggest audit firms — ceased to exist. This scandal directly led to the Sarbanes-Oxley Act (2002) in the USA.

Ethical Principles in Finance

Transparency

Full and fair disclosure of financial information to all stakeholders.

Accuracy

Financial statements must reflect the true financial position of the company.

Independence

Auditors and advisors must be independent and free from conflicts of interest.

Stewardship

Managers are stewards of shareholder money and must act in shareholders' best interests.

Compliance

With SEBI regulations, Companies Act, and applicable accounting standards.

3.2.4. Human Resource Ethics

Human Resource (HR) ethics deals with the moral obligations of organisations towards their employees. The employment relationship is one of the most ethically loaded relationships in business.

Key Ethical Concerns in HR:

1. Discrimination in Hiring and Promotion
2. Sexual Harassment at Workplace
3. Unfair Wages.
4. Unsafe Working Conditions
5. Privacy Violations
6. Wrongful Termination
7. Child and Forced Labour
8. Whistleblower Retaliation

□ **Example:** Infosys co-founder N.R. Narayana Murthy famously said: 'Our assets walk out of the door each evening. We have to make sure that they come back the next morning.' This reflects the ethical view that employees are the most valuable stakeholders — and must be treated with dignity, fairness, and respect.

Ethical Principles in HR

Fairness and non-discrimination

Fairness and non-discrimination in all HR decisions.

Dignity and respect

Dignity and respect for every employee regardless of level.

Fair compensation

Fair compensation that reflects contribution and market standards.

Safe and healthy working conditions

Safe and healthy working conditions as a non-negotiable baseline.

Privacy protection

Employee data collected only as needed and not misused.

Freedom from fear of retaliation

Freedom from fear of retaliation for ethical conduct or reporting.

3.2.5. ESG — Environmental, Social and Governance Considerations

ESG stands for Environmental, Social and Governance. It is a framework used by investors, regulators, and companies to evaluate how responsibly a business is operating beyond its financial performance.

ESG — Definition: ESG (Environmental, Social and Governance) refers to three central factors used in measuring the sustainability and ethical impact of an investment or a company. ESG criteria help investors evaluate companies' long-term viability and ethical standing.

Environmental (E)	Social (S)	Governance (G)
Carbon emissions and climate change	Employee welfare and labour rights	Board composition and independence
Water and energy use	Community development and impact	Executive pay and transparency
Waste management and pollution	Human rights in supply chain	Anti-corruption policies
Biodiversity and land use	Product safety and quality	Shareholder rights
Deforestation and natural resources	Diversity, equity and inclusion	Whistleblower protection

Why ESG Matters

For Investors

ESG helps identify long-term risks. Companies with poor ESG scores face regulatory penalties, reputational damage, and operational disruptions. Many global funds now exclude companies with poor ESG ratings.

For Regulators

SEBI (Securities and Exchange Board of India) has made Business Responsibility and Sustainability Reporting (BRSR) mandatory for top 1,000 listed companies from 2022–23.

For Companies

Strong ESG performance attracts investment, reduces regulatory risk, improves talent attraction, and builds consumer trust.

For Society

ESG-focused businesses contribute to the Sustainable Development Goals (SDGs) and the global commitment to net-zero carbon emissions.

📌 **Example:** Mahindra Group has committed to becoming carbon neutral by 2040 and has significant renewable energy investments. Its strong ESG performance has helped it attract global institutional investors who have strict ESG investment policies. This illustrates how ESG is no longer just an ethical choice but a strategic business decision.

3.2.6. Stakeholder Expectations and the Stakeholder Theory

The Stakeholder Theory, advanced by R. Edward Freeman (1984), holds that companies have obligations not just to shareholders, but to all stakeholders who are affected by or can affect the company's activities.

Stakeholder	Ethical Expectations
Shareholders	Fair returns, transparency, good governance
Employees	Fair wages, safe conditions, growth opportunities, respect
Customers	Safe, quality products; fair pricing; honest information
Suppliers	Fair contracts, timely payments, ethical treatment
Government	Tax compliance, legal compliance, policy engagement
Community	Job creation, minimal environmental harm, social contribution
Environment	Sustainable practices, reduced emissions, responsible sourcing



3.3. Regulatory Framework — BRSR, GRI and CSR Reporting

As businesses have grown more powerful and their impact on society and the environment has become more significant, governments and international bodies have developed formal frameworks that require businesses to disclose their non-financial performance. These frameworks hold businesses accountable for their environmental, social, and governance conduct.



3.3.1. Business Responsibility and Sustainability Reporting (BRSR)

BRSR — Full Form and Meaning

BRSR stands for Business Responsibility and Sustainability Report. It is a disclosure framework mandated by SEBI (Securities and Exchange Board of India) that requires listed companies to report on their environmental, social, and governance (ESG) performance alongside their financial performance.

Background and Evolution:

- SEBI first introduced the Business Responsibility Report (BRR) in 2012, requiring the top 100 listed companies to report on environmental, social, and governance practices.
- In 2021, SEBI replaced BRR with the more comprehensive BRSR framework.
- From 2022-23, BRSR became mandatory for India's top 1,000 listed companies (by market capitalisation). Other listed companies are encouraged to comply voluntarily.



Structure of BRSR — Nine Principles

The BRSR is based on the National Guidelines for Responsible Business Conduct (NGRBC), which is organised around 9 principles:

01

Principle 1: Businesses should conduct and govern themselves with integrity and in a manner that is ethical, transparent, and accountable.

02

Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.

03

Principle 3: Businesses should respect and promote the wellbeing of all employees, including those in their supply chains.

04

Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

05

Principle 5: Businesses should respect and promote human rights.

06

Principle 6: Businesses should respect and make efforts to protect and restore the environment.

07

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

08

Principle 8: Businesses should promote inclusive growth and equitable development.

09

Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

What Does BRSR Require Companies to Disclose?

Company Profile

Products, services, employee count, locations.

Governance Structure

Board composition, committees, policies.

Environmental Metrics

Energy consumption, water withdrawal, carbon emissions (Scope 1, 2, 3).

Social Metrics

Employee welfare, safety, wages, training, diversity.

Supply Chain Responsibility

Percentage of suppliers assessed on ESG parameters.

Complaints and Grievance Redressal

By stakeholder category.

❏ **Example:** Reliance Industries' BRSR for 2022-23 disclosed its commitment to net carbon zero by 2035, its renewable energy investments, water recycling rates, and the percentage of women in its workforce at various levels. This level of transparency was not publicly available before BRSR.

3.3.2. Global Reporting Initiative (GRI)

GRI — Full Form and Meaning

GRI stands for Global Reporting Initiative. It is an independent international organisation that provides the world's most widely used framework for sustainability reporting. Companies voluntarily use GRI Standards to disclose their economic, environmental, and social impacts.

Background:

- GRI was founded in 1997 in Boston, USA, following the Exxon Valdez oil spill, which highlighted the need for companies to disclose environmental impact.
- It released its first sustainability reporting guidelines in 2000.
- GRI Standards (current version) were released in 2016 and updated in 2021, providing a modular, interrelated set of standards.
- GRI is now headquartered in Amsterdam, Netherlands, and is the most widely adopted global sustainability reporting framework.



Structure of GRI Standards:

- 1. Universal Standards (GRI 1, 2, 3):** Apply to all organisations — cover foundation, general disclosures, and material topics.
- 2. Sector Standards:** Tailored standards for specific industries (oil and gas, agriculture, mining, financial services, etc.).
- 3. Topic Standards (GRI 200s, 300s, 400s):** Cover specific topics — Economic (200), Environmental (300), Social (400).



GRI Standards — Series Overview

Series	Category	Key Topics
GRI 200 series	Economic	Economic performance, indirect economic impacts, procurement, anti-corruption, anti-competitive behaviour, tax
GRI 300 series	Environmental	Materials, energy, water, biodiversity, emissions, waste, supplier environmental assessment
GRI 400 series	Social	Employment, labour relations, health & safety, training, diversity, child labour, human rights, community



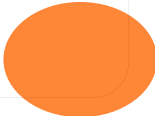
Key Features of GRI Reporting:

- 1. Voluntary:** Unlike BRSR (mandatory for Indian listed companies), GRI reporting is voluntary. However, it is increasingly expected by institutional investors.
- 2. Stakeholder Inclusiveness:** GRI reporting requires companies to identify and respond to the concerns of all stakeholders.
- 3. Materiality:** Companies must report on topics that are material — those that reflect significant economic, environmental, and social impacts.
- 4. Comparability:** GRI's standardised format allows comparison of sustainability performance across companies, industries, and countries.
- 5. Universally Applicable:** GRI Standards can be used by any organisation — large or small, public or private, in any country.

Example: Wipro Limited publishes an annual GRI-based Sustainability Report. It reports on energy consumption, water usage, carbon emissions, employee diversity, community investment, and governance practices. By following GRI, Wipro's sustainability data is comparable with global tech companies like Microsoft and SAP.

GRI — Key Facts

Feature	Details
Full Form	Global Reporting Initiative
Nature	Independent international non-profit organisation
Headquarters	Amsterdam, Netherlands
Founded	1997 (first guidelines in 2000)
Reporting Type	Voluntary (but strongly encouraged by investors)
Framework	GRI Universal Standards + Sector Standards + Topic Standards
Scope	(200, 300, 400 series) Economic, Environmental, and Social performance
Users	Over 10,000 organisations in 100+ countries report using GRI



3.3.3. Corporate Social Responsibility (CSR) Reporting

CSR — Full Form and Meaning

CSR stands for Corporate Social Responsibility. It refers to a company's voluntary (and in India, now partly mandatory) commitment to contribute positively to society and the environment, beyond its legal obligations and profit motive.

Background — CSR in India:

India was the first country in the world to make CSR spending legally mandatory. Section 135 of the Companies Act, 2013 introduced mandatory CSR for qualifying companies.

Who Must Comply with Mandatory CSR (Section 135)?

A company must comply with Section 135 if it meets any ONE of the following three criteria in any financial year:

- Net Worth of Rs. 500 crore or more, OR
- Turnover of Rs. 1,000 crore or more, OR
- Net Profit of Rs. 5 crore or more.

Mandatory Spend: Qualifying companies must spend at least 2% of their average net profit of the preceding three financial years on CSR activities. Unspent CSR amount must be transferred to a special account and spent within 3 years, or transferred to a fund specified under Schedule VII of the Companies Act.

CSR Activities — Schedule VII of Companies Act, 2013

- Eradicating hunger, poverty, and malnutrition.
- Promoting education, including special education.
- Promoting gender equality and empowering women.
- Ensuring environmental sustainability and ecological balance.
- Protection of national heritage, art, and culture.
- Measures for the benefit of armed forces veterans and their dependents.
- Promoting sports at national and international level.
- Contribution to Prime Minister's National Relief Fund (PMNRF) and similar funds.
- Rural development projects and slum development.
- Disaster management, including relief and rehabilitation.



CSR Governance Structure

1 CSR Committee

All qualifying companies must constitute a CSR Committee of the Board, with at least one independent director. The Committee formulates and recommends the CSR Policy and monitors its implementation.

2 CSR Policy

The company must formulate a CSR Policy, publish it on its website, and include a CSR report in its Annual Report.

3 Annual CSR Report

Must be included in the Directors' Report. It discloses the CSR activities undertaken, amount spent, and reasons for any shortfall.

 **Example:** Tata Consultancy Services (TCS) is one of India's largest CSR spenders. Its BridgeIT and Digital Impact Square programmes have trained millions of students in digital and STEM skills across India. TCS's CSR activities are deeply aligned with its core business (technology) — an example of strategic CSR rather than philanthropic CSR.

Difference Between CSR, BRSR, and GRI

Aspect	CSR	BRSR	GRI
Full Form	Corporate Social Responsibility	Business Responsibility and Sustainability Report	Global Reporting Initiative
Type	Spending requirement + reporting	Mandatory disclosure (ESG)	Voluntary reporting framework
Mandatory?	Yes (Section 135, for qualifying cos.)	Yes (top 1,000 listed cos.)	No (voluntary)
Governed By	Companies Act 2013 / MCA	SEBI	Independent NGO (Amsterdam)
Focus	Social spending & activities	ESG performance disclosure	Economic, Environmental, Social
Primary Goal	Social benefit through spending	Transparency & accountability	Global comparability of sustainability data