UNIVERSITY OF IBADAN

Distance Learning Centre Series

PHI 404

Business Ethics

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General Introduction

The course, Business Ethics, examines the role of ethics in business. The primary assumption in this course is that ethics plays an important role in business. It presupposes that for business to effectively fulfil its socio-economic functions, its activities must be mediated by core ethical principles. The course starts with an analysis of business. The first part of the first lecture focuses on an examination of the idea of business with the objective of distinguishing business from other economic activities that are not business in the strict sense. The second part of the first lecture examines the idea of business ethics in order to specify what it is and what it is not. Here, we would also highlight the importance of business ethics in contemporary society.

The focus of the second lecture is on some of the ethical issues that are central to business and the specific contexts in which these issues arise. Some of these are honesty, fairness, advertising, and organisational relationships. The third lecture examines the meaning of profit. Our focus on profit is borne out of the fact that profit is construed as a primary motivation and end of business. As such, it is important that we clarify what it is and what it is not, as well as the extent to which it can be justified.

The fourth lecture investigates the idea of a corporation. Here, our focus would be on the question of whether or not a corporation can have moral responsibilities. The fifth chapter is a follow up on the fourth chapter. It investigates the notion of corporate social responsibilities and tries to specify the reasons why it is meaningful to affirm that a corporation has some social responsibilities. It would also discuss some of the social responsibilities a corporation may meaningfully be construed to have.

The sixth lecture is on the stakeholder theory. Here, we examine who corporations are responsible to. The broad category of the people or entities that a corporate entity may be responsible to are called the stakeholders. The stakeholder theory identifies who a stakeholder is and why they matter in any discourse on the social responsibility of corporations. The seventh lecture examines the idea of corporate citizenship. Three perspectives on corporate citizenship are discussed: the limited, equivalent and extended views.

The eighth lecture is on the idea of corporate governance. Here, we shall examine the nature, significance and scope of corporate governance, as well threats to effective corporate governance. The ethics of global business is our concern in the ninth lecture. Our objective here is simply to describe the nature of global business in contemporary society and the moral principles that are important in the arena of global business. The tenth lecture discusses ethical investment. It defines what ethical investment is and why it is advocated in contemporary society.

On the whole, these lectures would facilitate an understanding of what business ethics is, specific ethical issues in business and also equip students with appropriate skills to address ethical challenges in the arena of business. By the end of this course, students would have a better understanding of the unique position business occupies in the quest for socio-economic development in contemporary society.

LECTURE ONE

Business and Business Ethics

Introduction

This lecture focuses on a clarification of the nature of business and business ethics. It begins with an account of business in order to distinguish it from other economic activities. The second section presents an account of business ethics so as to specify its nature and basic objectives. Business ethics has grown into a very important discourse in contemporary society because of the centrality of business not just in national economies but also in the global economy. Indeed, business organisations now constitute an important component of both national economies and the global economy because of the withdrawal of the state from direct economic activities through the processes of privatisation, commercialisation, and economic liberalization.

Objectives

The goal of this lecture is to facilitate a clear understanding of the ideas of business and business ethics. At the end of this lecture, we are expected to have a clear understanding of:

1. What business is .
2. What business ethics is
3. The history of business ethics

Pre-Test

1. Define business.
2. What is the nature of business ethics?
3. Why is it important to study business ethics?

CONTENT

Business

Generally speaking, the word business might appear to be ambiguous as it may be used to connote anything that concerns a person personally or which he or she has an interest in. It might also mean an important matter or issue that has to be attended to. However, in its strict economic sense, business may be defined as any economic activity that involves the production or delivery of goods and services for the purpose of generating a surplus within the confines of law and perhaps morality. There is a general presupposition that the primary objective of business is profit. However, the term, business, may also be employed in reference to an organisation that produces and sells goods or which provides a service with the objective of generating profit.

It is important to note that in its strict economic usage, it is not all organisations that are concerned with the production and distribution of goods or services that may be correctly described as business organisations. The hall mark of business organisations is generally agreed to be the production and distribution of goods or services for the primary purpose of making a profit. Hence, philanthropic (nonprofit making) organisations as well as governmental or non-governmental organisations that produce goods or render services to the public without the objective of making profit cannot be regarded as businesses in the strict sense.

Business Ethics

Ethics, simply, is a study and philosophy of human conduct with emphasis on the determination of what is right or wrong about human conducts, human character, or social institutions. It is a study of the nature of morals and of specific moral choices. In ethics, we critically study the principles and rules that govern human conducts in ordinary life as well as in other more specialised contexts. It is also concerned with the construction and justification of ethical standards which specify those moral rules and principles people should conform with

Business ethics deals with questions on the moral acceptability of specific business practices or procedures. To do this effectively, a fundamental focus of business ethics is the examination of moral rules and principles that guide actions, procedures and decisions in the arena of business. These rules and principles define what is morally right or wrong in the domain of business. They share designed to guide investors, customers, interest groups, employees and other stakeholders in their decision making.

However, in determining the kind of ethical decisions that are morally acceptable in business and the kind of ethical standards that we should conform with in business, it is important that two issues are carefully considered. The first is the issue of profit, which is requisite for the survival of business. The second is the need to carefully balance the direct needs of business with the general needs of society. This frequently requires trade-offs or compromises.

Why Study Business Ethics?

The following are some of the important reasons for the study of business ethics:

1. There is a distinction to be made between everyday ethical issues and ethical issues in business. For instance, some important moral issues do not arise in business while they remain central to our personal lives, and vice-versa. The impact of industrial production on the environment is an example of a moral issue in business that would not ordinarily arise in the personal life of an individual, and which requires special moral considerations other than what can be adequately addressed in ordinary morality.
2. Just being a good person in your personal view, having sound personal ethics may not be sufficient to handle the kind of ethical issues that arise in a business organisation.
3. Many people have limited business experience but suddenly find themselves making decisions about product quality, advertising, pricing, sales techniques, living practices and pollution control. Ordinary moral values learnt from family, religion or schools may be insufficient to provide specific guidelines for making appropriate moral decisions in business.
4. Ethical infractions continue to occur in business. Many business organisations and their employees confess that they engage in practices that are immoral and illegal. Indeed, unethical business practices is very rampant. A study of business ethics provides an avenue to examine why this is so and also provide a means by which unethical business practices may be prevented by business managers, regulators and other stakeholders.
5. Unethical and fraudulent business conducts have a very high cost and grievous effects on society. The case of the global economic crisis is indicative of the fact that business malpractices have the potential to inflict

great harm on individuals, communities, the environment and the world at large.

6. The power and influence of business in society in greater than ever before, and evidence suggests that many people are uneasy about this development. A study of business ethics would help to understand why the influence of business in society is on the increase, why people are uneasy about this development, what are the implications of the increasing influence of business in society , and how the unease about the increasing influence of business might be addressed.
7. The pressure being placed on business to be ethical by its various stakeholders are increasingly becoming more complex, intense and challenging. A study of business ethics provides an avenue to understand these challenges and how they can effectively be met.
8. Business ethics would improve ethical decision making by equipping business managers with requisite understanding and skills to correctly identify, analyse and resolve ethical problems in business.
9. Business ethics provides the tools and skills required to assess the benefits and challenges associated with different ways of managing ethics in business organisations.
10. A study of business ethics provides an understanding of business that transcends the understanding provided by the traditional framework of business studies. It also presents us with the opportunity to acquire relevant knowledge of contemporary society in a way that would equip us to be more effective in doing business in contemporary society.

The Development of Business Ethics

Prior to the 1960's, the focus of business ethics was to ensure that workers were fairly paid and that businesses did not increase the prices of their products to a level that would be intolerable or harmful to the average consumer. It was also during this period that issues of civil rights and environmental responsibilities were introduced into ethical issues for business to address. At this early stage of business ethics, much of the issues (fair wages, labour practices, and the morality of capitalism) were discussed from theological perspectives.

From the 1960's, primary attention shifted to social issues in business. These included questions of environmental pollution and consumer rights (rights to safety, information and choice). It was in the 1970's, however, that business ethics began to develop as a distinct academic field. Using the framework of some religious principles that could be applied in business, the idea of corporate social responsibility was developed. For instance, the religious precept that truth should always be told was employed in support of the demand for honesty in business. By this time, philosophers had entered the discourse of business ethics, employing basic ethical principles and theories, as well as philosophical analysis to structure the discipline of business ethics. Issues that became prominent during this period include bribery, deceptive advertising, product safety, and of course, environmental pollution.

By the 1980's business ethics, as an academic discipline, became firmly consolidated. Several centres and academic institutions began to offer courses in business ethics. It also became a prominent concern of many leading companies. From the 1990's till date, emphasis in business ethics include such issues as free trade and self regulation of businesses. During this period, there has been a transition from legally based ethical initiatives to culturally and integrity based initiatives that make ethics a part of core organisational culture.

Conclusion

This lecture concentrated on the clarification of the ideas of business and business ethics. Business has been defined as any economic activity that involves the production or delivery of goods and services for the purpose of generating profit within the confines of law and perhaps morality. Business ethics has been identified as a field of study that deals with an examination of questions on the moral acceptability of specific business practices or procedures. We also identified ten reasons for studying business ethics before giving an outline of the development of business ethics as an academic discipline.

Post-Test

1. What is the essential distinction between business and other economic activities?
2. Is the study of business ethics important in contemporary society? Give at least five reasons in support of your answer.
3. Briefly outline the history of business ethics as an academic field.

References

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LECTURE TWO

Ethical Issues in Business

Introduction

Ethical issues usually generate from human decisions or actions that are capable of producing some benefits or harm for people in society. Often, ethical issues are presented in situations in which specifiable individuals or people need to make a choice among alternative actions. It is the implications of such choices in terms of the benefits or harm that are produced by them that determine their moral value. When the implications are harmful, the choices and consequent actions are said to be bad or wrong, and they are deemed as good or right when the implications are beneficial.

Just as ethical issues arise for individuals in their ordinary life, they also arise for groups of people and for institutions. Ethical issues also arise in various contexts of life. One of such is the different professions that people engage in, and this includes business. Indeed, the arena of business presents a lot of situations that generate ethical issues. One of which is a situation in which there is a conflict between the personal moral values of an individual and the objectives of a business organization. Another is a situation in which a business decision tends to impact positively or negatively on society.

Many of the ethical issues in business may border on conflict of interest, honesty and fairness, communication, and relationships within business organisations or between business entities and society, or the environment. We shall briefly discuss each of these classifications in the course of this lecture. However, it is important to note that it is very dangerous to fail to recognise relevant ethical issues in business given the widespread perception that business is like a game in which ordinary moral rules may be inappropriate. Under this guise a lot of businesses engage in activities that are illegal and ethically questionable in the bid to maximise profit or other specific organisational goals.

One of the prerequisites for being able to identify and effectively address the ethical implications of business decisions and activities is be well grounded in business ethics. This may be complemented with consultations with colleagues in business in order to identify what is morally acceptable on any given issue in business. The assumption here is that an activity that is generally approved of by many practitioners in business would very likely be ethical. Besides, an issue that could withstand open and objective assessments by groups within and outside a business organisation would, most probably, be morally acceptable.

Objectives

The goal of this lecture is to identify and discuss, in general terms, some of the key ethical issues and the contexts in which they arise in business. At the end of this lecture, candidates are expected to have a clear understanding of:

1. What an ethical issue is.
2. The kind of ethical issues that arise in business and the contexts that generate them.

Pre-Test

1. What is an ethical issue.
2. Identify two ethical issues in business and discuss the context within which they arise.

CONTENT

Foundation of Ethical Issues in Business

Many ethical issues in business arise from a conflict between the personal interest of business managers and those of business; between the interests of employees and those of business owners; between the interest of business and society at large; between the interest of business and their customers. Others may be generated from a tension between the ethical values and beliefs of business owners on one hand and their employees, customers or society in general on the other hand. For example, the fact that people operate some ethical values and principles in their personal life that may be incompatible with those that hold sway in business may generate some ethical issues. In this regard, a conflict of interest would arise when an employee is under pressure to choose between his or her own personal ethical values and those of the business organisation he or she works for. A typical example may be with regards to whether or not a business should offer a bribe or any other form of gratification to a government official in an attempt to influence a legislation in favour of the business. Another example may be related to a decision to advertise a product in a way that is considered to be quite effective by a business but which an employee or perhaps some members of the public consider to be deceptive.

We shall now discuss some areas of business where ethical issues may arise.

Honesty and Fairness

Honesty refers to the moral virtue of being truthful and trustworthy. An honest person may also be described as a person of integrity. Fairness is the moral virtue of being just, impartial and equitable in dealings with others in society. Decision makers in diverse domains of life, including business are expected to be honest and fair in their business decision making and activities.

At the very least, business organisations and managers are required to abide by relevant laws and regulations. They are expected to refrain from any decision or action that would be harmful to their employees, customers, clients, the general public, and even their competitors. All business dealings are expected to be based on and should also aim to enhance the moral virtues fairness, justice and trust. It is in this regard that they are expected to avoid any form of misrepresentation, deception or coercion. Without these moral virtues, business would lack the environment required for it to thrive and make profit in a sustainable way. Indeed, business exchange would be rendered impossible without trust, integrity and fairness. For example, customers must be able to trust producers and marketers, just as there must be sufficient trust between lenders and borrowers.

Communication

Communication refers to the transmission of information and the sharing of meaning. A prominent way communication can generate ethical issues relates to the content of the information about a product or service as well as the means of transmitting such information to prospective or actual customers or clients. The relevant information may be about the safety of a product, its efficacy, the condition under which it is produced or the means of its production. False or deceptive communication through advertisement is an important ethical issue in business. It may constitute a significant ethical problem that can make or mar a business. This is because it destroys the trust that customers or clients have in a business organisation.

False or deceptive communication in business includes exaggerated claims, concealment of relevant and important information, and outright lying. For instance, the substantiated claim that your brand of a product, for example, a car, is superior to its competitors may be mere exaggeration. Matters of labelling can also produce ethical issues. For example, products' sizes may be labelled as small, medium or large in a way that buyers are deceived about their actual sizes and the significant variation in sizes.

Organisational Relationships

Organisational relationship consists of how members of a business organisation relate with one another on one hand, and with stakeholders on the other. Stakeholders include customers or clients, suppliers and members of the general public that may be affected by or affect the operations of the business entity. Within business organisations, employees are morally required to maintain the confidence of their employers, fulfil their obligations and responsibilities, and avoid putting undue pressure on others in ways that might encourage them to behave unethically. Between business entities, ethical issues may relate to piracy and patent rights. These relate to the right that specific businesses have to produce and sell certain products for a given period of time.

In business, we have a number of categories of participants, which include owners, employees and customers. There are also a number of functional areas that include management, marketing and sales, accounting and finance, and public relations. Each of these category of participants and functional areas have some ethical issues peculiar to them. We shall now discuss some of these.

Owners

Virtually all businesses start with the vision of an individual or group of owners who pool their resources together to provide some good or service. These owners may also be the managers of the business or may decide to employ professionals for this purpose. It contemporary society, it is essential for business owners to understand the ethical issues that are relevant to their business. A neglect or ignorance of such ethical issues may result in business losses or outright failure of the business. These issues may include those pertaining to workers remuneration, work conditions, quality of products, impact of their activities on the environment and pricing.

Finance

Owners of business have the responsibility to provide the finance required for the operations of business. This sometimes necessitate that owners of business borrow from available sources such as friends associates or financial institutions. They may also decide to take on additional owners or stockholders in order to expand a business's capital base. How finance is raised to fund a business can generate ethical and legal issues. Ethical issues could also be generated from how a business reports its financial position to its stakeholders. These include current and potential investors, government agencies and other interested member of the public.

Employees

Employees in a business often need to make decisions and even carry out tasks they consider to be unethical on the ground that they conflict with their personal moral standpoint even though they may enhance profit. For instance, many employees in tobacco and alcohol manufacturing companies believe that the products of the business entities they work for are ethically questionable because of their harmful effects. They however continue to work in such places either because there are no available alternatives or because the jobs are well paying.

Management

Business managers have both an ethical and a legal responsibility to manage business in the best interest of the owners of business. These responsibilities may sometimes conflict with the personal interests and objectives of the managers in terms of security of jobs or remuneration. It is also possible for there to be reasons to call into question the loyalty of managers to the organization for which they are working given the understanding that the primary objective of management is to facilitate the attainment of a company's objective through effective organisation, direction, planning and controlling of the activities of employees. In performing its statutory roles in a business organisation, management should pay attention to ethical issues that relate to employee discipline, health and safety, and code of ethics among others in the work place.

Consumers

No business entity can survive without the patronage of customers. As such, a major goal of business is to satisfy its customers. This requires that business finds out what customers want and need, both in the short and long term, create the necessary goods or services and make them accessible to them.

Marketing

All marketing activities focus on customers, potential and actual, and more specifically, how to satisfy them. They involve bringing to the awareness of customers their need for given products and also making these products accessible to them. Marketers begin with the conduct of research to gather information about what consumers want, then they arrange for the development/ manufacture of such products, price the products, promote and distribute them to where consumers want to buy them. Ethical issues often arise over product safety, pricing of products, and the appropriateness of distribution channels.

Accounting

Accountants in recent times are under increasing pressure in terms of time, fees, and financial advice from clients, and also increased competition from professional colleagues. They are also always under pressure to follow rules and interpret data correctly. These require that accountants follow the prescription of their profession' code of ethics, which largely defines their responsibilities to their clients and the general public. This code also defines the legitimate scope of an accountant's activities and the nature of services he or she can morally provide.

Conclusion

This lecture discussed in a broad way the nature and forms of ethical issues in business. We identified the foundation of ethical issues in business to be conflict of interest between business and employees, business and clients, and business and the general public. These ethical issues, generally speaking, border on the issues of honesty and fairness, communication and relationships within a business or between it and stakeholders. We devoted some attention to some of the category of participants and functional areas that have some ethical issues peculiar to them.

Post-Test

1. What is an ethical issue?
2. Discuss the foundation of ethical challenges in business.
3. Identify three of the functional areas of business in which ethical issues arise and discuss how ethical issues could be generated in each of the areas identified .

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LECTURE THREE

The Meaning of Profit

Introduction

Business has been defined as any activity that involves the production or delivery of goods or services within the confines of law and morality, and with a primary objective of generating a surplus, otherwise called profit. Hence, many people would agree that the primary purpose of business is to generate profit. As such, when moral questions are raised about profit, these questions are really about the very essence of business itself. Indeed, a lot of debate revolve around the issue of profit, and some of the questions raised relates to the nature of profit and its justification .

A reason for the high level of interest in the nature and justification of profit is that many of the solutions to ethical problems in business affect profit. Some of these problems include pollution, adequate workers wages, safe work environment, honest advertising and production of safe and durable products. Another consideration is that when profit is placed against other social considerations such as the wages of workers, profit is always at a disadvantage. This is because for many people, the intangible elements that may justify profit do not have as much importance as other immediate, basic, tangible and seemingly pressing needs of other claimants in society. These would include benefits for workers, clean air for all, and workers and consumers safety.

Objectives

Our objective in this lecture is to examine the idea of profit in business in a way that its true nature is clarified and its justification explained. At the end of this lecture, candidates are expected to have a good understanding of:

1. What profit is .
2. The extent to which it is justifiable as the primary objective of business.

Pre-Test

1. What is profit?
2. Discuss the major justification of profit in business.

CONTENT

The Nature and Justification of Profit

Of a truth, issues pertaining to the nature and justification of profit are interrelated. With regard to its nature, profit tends to be over-estimated by an average person as businesses are often assumed to be making more profit than they actually make. It is easily assumed that any difference between the price of a good or service and its actual value is profit. Each time an average person feels short-changed in the market place, he or she assumes that profit is soaring, when as a matter of fact this might be due to poor management or inefficient production or marketing.

A common conception of profit is that it is what is left of the gross receipt after all expenses have been paid in a business. It is the surplus or gain from legitimate business activities. As such, it must be earned in a fair and reasonable way. Thus, any surplus gained through lottery winnings or fraud cannot be correctly construed as profit. This idea of profit allows critics to ask for what justifies profit in the sense of what makes it reasonable and fair, and what it is a payment for. With regards to whether or not payment should be made for workers' wages, raw materials, tax or other marketing or running costs of business, there is usually not much of a debate. These are easily seen as legitimate costs to be passed on legitimately as part of the running cost of business. However, when it comes to profit, construed as difference remaining after all costs have been deducted, questions are asked regarding what it is payment for, how it is actually earned, and why it is truly deserved.

In response to the above queries, it appears reasonable to define profit as what is left-over after all tangible, specifiable and quantifiable costs have been paid. Hence, it is considered to be the reward for some intangible factors that are crucial to business. These would include risk, entrepreneurial creativity, initiative and the deferment of the use of one's resources.

In addition to the above, profit may possibly be justified on the ground that the desire for profit is a manifestation of a universal desire of all humans (investors, workers, suppliers, consumers) to acquire more than one already has. This argument assumes that if the drive for profit is a universal and innate human attribute, it is beyond ethical scrutiny and moral criticism. However, this line of thought ignores the fact that morality in ordinary life and also in business requires that innate drives are either suppressed or transcended for people to act in morally acceptable ways. Consequently, the attempt to justify profit on the basis of the fact that the desire for it is innate and universal to all humans fails to provide any cogent justification for profit.

Some businesses might want to justify their profit by saying that the fact that they are recording profit is proof that profit is justified and also indicative of the integrity, utility and moral goodness of their business. This position is presupposed in the typical question that "how can our business be doing so well if it is not good"? A major flaw of this standpoint is that it commits the fallacy of circularity. It presupposes the very claim that is in need of justification.

Another approach that may be adopted in the quest to provide justification for profit is to make a distinction between the goal of the economic system, which is primarily to enhance the economy as well as the overall wellbeing of all stakeholders in an economy, and the goal of business which is generally construed as maximising profit for the owners of business. The goal of maximising profit is considered to be justified if it is consistent with and enhances the attainment of the economic and overall wellbeing of all in society.

In connection with the above, it may be assumed that for profit to be justified it must fulfil a number of preconditions, first of which is that it must be legitimately earned and reasonable within the context of business activities. The challenge however is that of how to conceptualise what is reasonable and legitimate for business in its quest for profit. A possible way to conceptualise profit that is reasonable and legitimate for business is to tie it with what the market can bear. The argument is that profit is reasonable, legitimate, and therefore justified to the extent that the market can bear it and customers pay for it. If it were not reasonable and legitimate, customers would not pay for it. Hence, it is maintained that profit is determined by the interplay of the forces of demand and supply in the market place. A problem with this position, however, is that there are occasions when customers do not have much choice but to pay for certain products at excessively high price. Situations of scarcity provides a good example of this.

Another precondition considered to constitute a justification of profit is the specific contribution of business or owners of business to profit generation. In this regard, it is expected that profit would be proportional to the contribution of owners to the generation of profit. The argument may be extended to the claim that businesses and their owners have a moral conscience by virtue of which they would always respect the rule of proportionality and ensure that profit remains within the limits of proportionality. A problem here is that there is no guarantee that business owners would always respect the demands of the rules of proportionality as many of them are known to exploit customers as often as they can get away with it. This is especially so because the key operational principle in the market place is that businesses should attempt to sell at the highest possible price while customers should try to buy at the lowest possible price. Besides, there is also the challenge of how to determine what profit is proportional to the contribution of business owners.

Conclusion

We have discussed issues pertaining to do nature and justification of profit. The nature of profit has been conceptualised as what is left of the gross receipt after all expenses have been paid in a business. It is the surplus or gain from legitimate business activities. A number of approaches for the justification of profit have been presented in this lecture. These include an appeal to what the market can bear, the interplay of the forces of demand and supply, what is reasonable and fair, as well as the moral integrity of business owners. A number of problems with these efforts to justify profit have also been discussed.

Post-Test

1. Define what profit is ?
2. Outline two attempts to justify profit and specify their problems.
3. What is the precise relationship between profit and business?

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LECTURE FOUR:

What is a Corporation?

Introduction

One of the issues central to business ethics is corporate social responsibility. However, before we can adequately discuss this issue and ascertain whether or not it would be proper to assign any form of social responsibility to corporate entities, it is essential that we clarify what a corporation is. At least, it is fairly obvious that corporations are not the same as individual persons. Hence, before we can properly identify the kinds of responsibilities corporations might have, we need to define, in very clear terms, what they are and why they exist.

Objectives

Our objective in this lecture is to clarify what corporations are and the kind of entities that may be rightly referred to as corporations. We would also determine whether or not corporations can, properly speaking, have social responsibilities. At the end of this lecture, candidates are expected to have a good understanding of:

1. What a corporation is.
2. The essential features of a corporation.
3. The debate on the possibility of corporate entities having corporate responsibilities.

Pre-Test

1. What is a corporation?
2. Identify the key features of a corporation.

3. Can a corporation have social responsibility?

CONTENT

What is a Corporation?

In global economy, the corporation is the most dominant form of business entity. While a corporation is a business entity, not all business entities are corporations, and not all corporations are profit making business entities. For instance, some charitable organisations and universities have the status of corporations but are also not-for-profit-businesses. Given the above, it is important that we note that our primary concern is with corporate entities that are established for profit.

Essential Features of a Corporation

Two of the essential features of a corporation employed in defining it are its legal status and ownership of assets. From the legal perspective, a distinction is made between the corporation itself on one hand and those who work in it, manage it, invest in it, or receive its products and services on the other hand. The former is described as a separate entity that is independent of the latter. It is in this regard that corporations are considered to have perpetual succession in the sense that they can survive the death of any individual investor, employee, or customer.

With regards to ownership of assets, it is the corporation itself, as an entity, that owns assets and not its shareholders or managers. For instance, the factories, buildings, equipments and vehicles of Coca-Cola are the properties of Coca-Cola and not of its shareholders. All that shareholders own are shares in the company that entitles them to a dividend and a say in some decisions affecting how and who administers the company. Other features of a corporation include:

1. They are regarded as artificial persons by the law. In this regard, they are seen as having rights and responsibilities in society, just as any individual citizen has.
2. Corporations are notionally owned by shareholders but still exist independently of them. It is in this sense that a corporation is said to own its own assets, and its shareholders cannot be held responsible for its debts or any damage caused by the corporation.
3. The managers of a corporation have a fiduciary responsibility to protect the investments of the shareholders. Hence, the management of a corporation is expected to hold the investments of shareholders in trust and to, at all times, act in their best interest.

The above suggests that corporations have certain responsibilities, but it does not yet establish that they have moral responsibilities. Hence, it is necessary that we clarify further, the nature of the responsibilities that corporations have.

The question of corporate moral responsibility

A question that comes up in the discourse on the status of a corporation is whether or not they can be rightly said to have any moral responsibility for the rightness or wrongness of its actions. There are arguments to the effect that corporations can be held to be morally responsible for their actions. However, they are all premised on the fact that apart from being legally independent, corporations also have agency independent of their members.

There are two principal arguments in support of the agency independence of corporations. The first appeals to the fact that apart from individuals that take decisions within a corporate entity, every corporation has its own internal decision making structure which directs corporate decision in line with predetermined goals. Given this structure, when the various elements of a corporation act together, most of the corporation's actions cannot be assigned or attributed to any individual decision or action. Hence, no individual can be directly held responsible for any corporate action. The internal decision making structure of any corporation can be seen in its organisation chart as well as in its established corporate policies that determine the company's actions far beyond the contribution of any given policy. The important point being made here is that corporations normally have an organised framework of decision making which, by laying down an explicit or implicit purpose for decisions, transcends the framework of responsibility of any individual.

The second line of argument in support of the agency independence of corporations in addition to the above is that all companies have a set of beliefs and values that specify what is generally regarded as right or wrong within a corporation. This set of values and beliefs is known as organisational culture. It has a very strong influence on the ethical decision-making and behaviour of individuals within a corporate entity. Hence, many of the actions, decisions and issues for which corporations receive moral praise or blame are traceable to the company's culture.

Given the above, we can conclude that corporations have some level of moral responsibility beyond the responsibility that individuals constituting the corporation. Indeed, apart from the fact that the legal system of many developed countries treat corporations as legal or artificial persons that have legal responsibilities, they are also considered by many as having moral agency that shapes the decisions made by those in the corporation.

Conclusion

In this lecture, we have discussed what a corporation is and identified its key features to include its legal status and ownership of assets. The fact that corporations have agency independent of their members has been identified as a premise that establishes that they can be rightly held to be morally responsible for their decisions and actions.

Post-Test

1. Identify the essential features of a corporation.
2. Justify the view that corporations can be held morally responsible for their decisions and actions.

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LECTURE FIVE

Corporate Social Responsibility

Introduction

With an understanding of what a corporation is that we have gained from the previous chapter, we are now in a better position to examine one of the key issues in business ethics. This is the question of whether or not corporate entities have any social responsibility. However, it would be helpful to adopt the method of analysis to answer this question. This involves breaking down a complex concept to its simplest components so as to clarify its actual meaning, significance and implications. Hence, a separate understanding of the idea of a corporation and that of social responsibility would enhance an understanding of the more complex notion of corporate social responsibility.

Objectives

The objective of this lecture is to examine the idea of corporate social responsibility in a way that would clarify what it means to say that a business has some social responsibilities and the precise nature of the social responsibilities that corporate entities have. By the time we conclude this lecture, we expect that candidates would have a clear understanding of:

1. The meaning of corporate social responsibility.
2. The nature of the social responsibilities that businesses have.
3. The major forms of social responsibilities generally recognised in the study of business ethics.

Pre-Test

1. Define the notion of social responsibility.
2. Discuss any two reasons why corporations have social responsibilities.
3. Identify any three forms of corporate social responsibilities

CONTENT

What is a social Responsibility?

Generally speaking, a social responsibility is a duty that one has, either as an individual or a corporate entity in society, to ensure that social wellbeing is not hindered but enhanced. More specifically, it connotes an intelligent, unbiased and selfless concern for the wellbeing of society which ensures that individuals or corporate bodies restrain from those activities that are harmful to society as a whole or any of its segments.

Corporate Social Responsibility

Given the understanding that a corporation is a business entity that has a primary objective to make profit, has a legal status and owns assets, and the idea that social responsibility connotes an intelligent and objective concern for the welfare of society which prevents one from any behaviour that may be harmful to society, the idea of corporate social responsibility may be described as the obligation that business entities have to refrain from any activity that may be harmful to society or any of its sections as they strive to make or maximise profit.

The Question of Corporate Social Responsibility

Milton Friedman is perhaps the most ardent critic of the idea that corporations have any social responsibility. In his article, "The Social Responsibility of

Business is to Increase its Profits", Friedman argued vehemently against the view that corporations have any social responsibility beyond profit making for their shareholders. His position is premised on three main points:

The first is that only humans have a moral responsibility for their actions. His argument here is that because corporations are not humans they do not have any moral responsibility for their actions as autonomous entities. He explains further that since corporations are set up by individual human beings, they are the only ones who can be individually responsible for the actions of the corporation.

Friedman's second premise is that as long as a corporation abide by the legal provisions of the society in which it operates, the only responsibility of the managers of the corporation is to make profit. This is the primary reason for which the corporation came into existence and for which the managers are employed. Pursuing any other objective would amount to a betrayal of their special responsibility to shareholders and a form of theft from shareholder's money.

Third is that social issues and problems are the proper concern of the state and not corporate managers. Friedman contends that corporate managers should not and cannot decide what is in the best interest of society. In his opinion, this is the prerogative of government as corporate managers are neither trained to set and achieve social goals nor are they employed or elected to do so.

Corporations Do Have Social Responsibilities

It is generally accepted that corporations have social responsibilities beyond profit making. Indeed, there are several arguments to this effect even though many of them are from the perspective of the enlightened self interest of corporations. They are largely to the effect that corporations should and actually take on social responsibilities because it is in their self- interest to do so. The following are some of the reasons why corporations take on social responsibilities:

1. Businesses that are socially responsible are likely to attract more customers while those that are socially irresponsible may experience undesirable consumer actions. For example, they may have their goods and services boycotted by customers..
2. Corporate social responsibility is a way of making a positive and long term investment that would facilitate the evolution of a more educated, more equitable and safer society. Such a society would provide a better social environment within which corporate entities would be better positioned to pursue their corporate interests.
3. Better, more skilled employees are likely to be attracted to corporations that are considered to be socially responsible. Employees are also more likely to be to be more committed to corporations that are socially responsible than they would be to those that are not.
4. Being socially responsible would facilitate corporate independence as there would be the reduced need for governments to legislate in corporate matters.
5. Corporations, through their activities, generate social problems and as such have a social responsibility to resolve such problems and also prevent other social problems arising from them. One of such problems is the problem of environmental pollution caused by many manufacturing industries.
6. In contemporary society, corporate entities wield tremendous socio-economic and socio-political

influence and also have great resources at their disposal. They should use all these responsibly in ways that would enhance social welfare.

7. Corporate activities have social impacts on all stakeholders through the provision and distribution of goods and services, employment of workers, payment of taxes, publication of financial statements, and other corporate actions. As such, corporations cannot escape responsibilities for the social effects of their actions, be it positive, negative or neutral.
8. Corporate entities benefit from society in the sense that the latter provides the platform as well as all the resources required by former to function. This imposes a duty on corporate entities to take into account the interest of the larger society as they embark upon their profit making activities.

However, critics of the idea of corporate social responsibility contend that when corporations act in ways that are socially responsible out of enlightened self interest , such actions are not truly acts of social responsibility but acts designed to enhance their profit carried out under the guise of corporate social responsibility. But, in reality, what actually matters is the motivation of the corporate entity engaged in an act that is being contested as one of social responsibility and not whether or not it enhances corporate profit. The important question is whether desire to make profit or to be socially responsible is the main motivation behind an act. If it is the latter, the fact that it results in profit would just be a happy coincidence that does not deny the act the status of corporate responsibility.

Forms of Corporate Social Responsibilities

What appears to be the most accepted model of corporate social responsibility is the ‘four-part model proposed by Archie Carroll. He construes corporate social responsibility as a complex concept that has four essential components, levels or aspects that are interrelated: economic; legal; ethical; and philanthropic responsibilities. These levels of responsibilities are usually presented in such a way that corporations are expected to satisfy all of them in order to be truly socially responsible. They are discussed below:

Economic responsibility**:** Businesses are set up basically to generate profit for their owners, provide good-quality products for their customers or clients, and also well paying jobs for employees. Achieving these objectives constitutes the basic economic responsibility of businesses, and it is the extent to which this economic responsibility is fulfilled that a business could be said to be a properly functioning and viable economic unit. Besides, the economic responsibilities of generating a profit, providing good-quality products, and well-paying jobs is considered as the basis for all other forms of responsibilities.

Legal responsibility*:* The legal responsibility of corporations places an obligation on them to carry out all their activities in accordance with the law or all the legal requirements of the society in which they operate. It is in this regard that they are expected to play the game of business according to the rules of the game of business. Law, in this regard, may be rightly construed as the codification of the moral values of society. Hence, abiding by them is requisite for further reasoning about social responsibilities.

Ethical responsibility: Ethical responsibilities are the obligations that corporate entities have to do what is right, just, and fair even when there are no legal requirements that they should do so. They consist of those general expectations that society have towards corporate entities. These include for example maintaining a safe environment.

Philanthropic responsibility: The Greek word, philanthropy, means the love of fellow humans. Hence, philanthropic responsibilities of a corporation include all that it can do to improve the quality of life of its employees, local community and society in general. This responsibility includes charitable donations, support for local schools, sponsoring social events such as sports and arts, and building recreational facilities for employees and their families or even the local community. Generally, it includes all those things that are desired of corporations but which they are not required to do. As such, this category of responsibilities appear to be the least important of the four categories of corporate social responsibilities.

The four-part model of corporate social responsibility is quite pragmatic in the sense that while it structures the different social responsibilities into various segments, it acknowledges and gives premium to the demands placed on businesses to be profitable and legal. However, it has a limitation of specifying how a conflict between any two or more of these responsibilities should be resolved. For instance, what should a business organisation do when the responsibility to be efficient and profitable conflicts with that of providing secure jobs for employees.

Corporate Social Responsiveness

The idea of corporate social responsiveness focuses on the strategic aspects of corporate social responsibility that deals with how corporations actively respond to social concerns, expectations and pressures. It is described as the action phase of corporate social responsibility which articulates the capacity of a corporation to respond to social demands and pressures. In this regard Archie Carroll presents four strategies of social responsiveness. They are outlined below:

Reaction: corporations may deny having any responsibility for social issues by arguing that these are the responsibilities of government.

Defence: this involves the admittance of responsibility but at the same time doing only the least that appears to be required. Here, corporations engage in superficial public relations rather than positive action.

Accommodation: here, the corporation accepts social responsibilities and does its best to do what is demanded of it by relevant groups in society.

Proaction: the corporate entity anticipates what society might expect of it in future and on the basis of this does more than what is currently expected. In this regard, it goes beyond current industry norms.

Corporate Social Performance

Usually, the economic performance of corporations are assessed and measured. In the same way, there is a growing demand that their social performance should be evaluated and measured. This demand gave rise to the idea of corporate social performance which focuses on the assessment of the extent to which corporate entities meet up with their social responsibilities. Donald Wood in this regard provides a model for measuring the social performance of corporations in terms of social responsiveness and the outcomes of corporate behaviour. These outcomes may be seen in three basic areas:

Social policies: these are the obvious and clearly defined corporate policies stating a company's values, beliefs, and goals with regard to its social environment.

Social programmes: these include the actual programmes, activities, measures, and tools employed to achieve the social policies of a corporate entity.

Social impact: the social impact of a corporation can be assessed by looking at the actual changes it has recorded through its implemented programmes within a given time frame.

Conclusion

This lecture discussed the idea of corporate social responsibility. It began with an outline of Milton Friedman's denial of the notion of corporate social responsibility before examining some of the key reasons why corporations take on different forms of social responsibilities. We also discussed four basic forms of social responsibilities: economic, legal, ethical and philanthropic. The notions of corporate social responsiveness and corporate social performance were also discussed as offshoots of the notion of corporate social responsibility.

Post-Test

1. Discuss the major reasons for Milton Friedman's denial of the idea of corporate social responsibility.
2. List any five of the reasons why corporations take on social responsibilities.
3. Delineate the major forms or levels of corporate social responsibility.
4. Discuss the idea of corporate responsiveness and the four strategies it may involve.
5. What is corporate social performance and the three major area it may be assessed?

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LECTURE SIX

Stakeholder Theory

Introduction

The last lecture focused on the idea of corporate social responsibility which deals with what corporations are responsible for, how such responsibilities arise and how they can be met. This chapter examines who corporations are responsible to. The broad category of the people or entities that a corporate entity may be responsible to are called the stakeholders, and the stakeholder theory identifies who a stakeholder is and why they matter in any discourse on the social responsibility of corporations.

Objectives

The objective of this lecture is to examine the stakeholder theory. At the end of this lecture, candidates are expected to understand the following:

1. Who a stakeholder is.
2. Why stakeholders are important.
3. Different forms of stakeholder theory

Pre-Test

1. Define who the stakeholders of a corporation are.

2. What is the relevance of stakeholders to the idea of corporate social responsibility.

CONTENT

The stakeholder Approach

While the idea corporate social responsibility approach focuses on corporations and their social responsibilities, the stakeholder approach concentrates on the different groups to which corporations have social responsibilities. The basic premise upon which the stakeholders approach rests is that corporations are not and should not be managed in the interest of their shareholders alone. Rather, there are an array of groups that have justifiable interests in corporations apart from the shareholders. These groups are described as the stakeholders in a corporation. Hence, a stakeholder in a corporation may be defined as any individual or group that can be affected or that can influence the activity or accomplishment of the goals of an organisation.

The stakeholder approach thrives on two basic principles: the principle of corporate rights and the principle of corporate effect. The first maintains that a corporate entity has an obligation not to violate the rights of any group or individual in society. The second affirms that corporations are responsible for the effect of their actions on other members of society. Given these principles, a stakeholder in a corporation is any individual or group that either benefits from or is harmed in any way by the corporation. Alternatively, a stakeholder may be any individual or group whose rights may be violated, or should be recognised and respected by a corporation.

From the above, it is fairly obvious that the stakeholders of corporations may differ from corporation to corporation. Indeed, they may even differ for the same corporation in different situations or periods, or for different tasks or projects. However, in a general sense, the stakeholders of a corporation would include its owners (shareholders), employees, customers, suppliers and any other category of people who can affect or be affected negatively or positively by the corporation. The relationship between a corporate entity and its stakeholders is usually two-dimensional in the sense that just as a corporation has obligations towards its stakeholders, the stakeholders may also have some obligations towards the corporation, their own stakeholders and other stakeholders of the corporation in question.

Importance of Stakeholders

There are at least two reasons why corporations have some responsibilities towards their stakeholders. The first is from the legal perspective, which holds that, legally speaking, other groups beyond shareholders have a genuine or legitimate stake in a corporation. For instance, corporations enter into legally binding contracts with employees, contractors, suppliers. Besides, there is in contemporary society a network of laws that makes it obvious that a wide array of groups can lay claim to some rights on the corporation. From the economic perspective, the economic well being of a number of people are affected by the condition of a corporation, and this should be given adequate consideration by the corporation. These may include employees, customers or clients, shop keepers, and even government that needs the tax paid by corporations to run and provide social amenities for the general citizenry.

Given the importance of stakeholders, corporations, beyond their fiduciary duty to protect and enhance the interest of their shareholders, also have a responsibility to protect and enhance the interest of other stakeholders. In a significant sense, the long-term survival and prosperity of corporations depend on how they attend to the interest of stakeholders.

Types of Stakeholder Theory

The following are the different forms of the stakeholder theory that have emerged:

Normative stakeholder theory: this attempts to articulate the reasons why corporations should give adequate attention to the interests of their stakeholders.

Instrumental stakeholder theory: this theory tries to determine whether or not, and the extent to which, it is beneficial for a corporation to give attention to the interests of its stakeholders.

Descriptive stakeholder theory: the focus here is to determine whether or not, and how corporations actually attend to the interests of their stakeholders.

Conclusion

This lecture discussed the stakeholder theory. We identified the stakeholder as any individual or group that may be affected negatively or positively by the activities or decisions of a corporation. In the course of the lecture, we discussed the principles of rights and corporate effects upon which the stakeholder theory thrives. Also discussed is the importance of stakeholders from both the legal and economic perspectives before we identified three basic forms of the stakeholder theory.

Post-Test

1. Who is a stakeholder?
2. Discuss the principles of rights and corporate effect in relation to the stakeholder theory.
3. Identify the three types of stakeholder theory.

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LECTURE SEVEN

Corporate Citizenship

Introduction

During the middle of the 1990's, the concept of corporate citizenship evolved as a new means of examining the social responsibility of corporations. It emerged in response to the perception that the concepts of "corporate social responsibility", "corporate social performance" and " corporate social responsiveness" do not adequately address the social responsibilities that corporate entities have.

Objectives

The primary goal of this lecture is to examine the idea of corporate citizenship. Candidates are expected to understand the following:

1. Why the concept of corporate citizenship emerged.
2. What the concept of corporate citizenship means.
3. The place of the notion of corporate citizenship in the study of business ethics.

Pre-Test

1. What is the difference in the concepts of corporate citizenship, corporate social responsibility, corporate social performance and corporate social responsiveness?

2. Define the idea of corporate citizenship.

CONTENT

Reasons for the Idea of Corporate Citizenship

There are a number of reasons why the idea of corporate citizenship evolved in the study of business ethics. Some of these are highlighted below:

1. Business practitioners have never been comfortable with some of the key terms used in business ethics. For instance, the term "business ethics" is treated with suspicion as if it suggests that business is originally devoid of ethics or that business and ethics are opposed.
2. Similar to the above, there is the suggestion that the notion of corporate social responsibility is introduced into business ethics to remind business of something it should do which it, hitherto, has ignored. More specifically, it suggests that it reproaches business for failing to fulfil its social responsibilities.
3. Concepts such as corporate social responsibility, corporate social performance and corporate social responsiveness were introduced into the study of business ethics by academics. Hence, they were treated with suspicion by business practitioners and this made it difficult for such concepts to gain legitimacy and total acceptance in the business arena.
4. The concept of corporate citizenship became necessary given the fact after the emergence of newly founded, reorganised or taken-over states in Eastern Europe, questions were raised over the role of business and government in

society and in the political organisation of the new political communities. Likewise, issues were raised about the need to redefine and reallocate values, rights and duties in the new political communities.

5. With the process of globalisation and the cognate erosion of the powers of the state, the idea of national citizenship is becoming weak and this has raised questions over how citizenship should be defined at the global level. Besides, with the increasing relevance of corporate entities at the global level, and their recognition as an important player in the global arena, the discourse on global citizenship is often engaged along with the discourse on the idea of global corporate citizenship.

The Meaning of Corporate Citizenship

There are three distinct perspectives on the meaning of corporate citizenship. These are the limited, equivalent and extended perspectives. We shall now examine each of these in turn.

The Limited Perspective of Corporate Citizenship

This perspective of corporate citizenship is employed to identify the responsibilities and roles of a corporation in its local community. Here, the local community is focused on as the main stakeholder of a corporation. It is in this regard that being a good corporate citizen is often identified with the fulfilment of philanthropic responsibilities that may be considered as a discretionary activity beyond what is expected of business. The limited view of corporate citizenship involves giving back to society and it is based on the understanding that the corporation has first received from society.

The Equivalent Perspective of Corporate Citizenship

This conception of corporate citizenship is just an update on the idea of corporate social responsibility. It defines corporate citizenship as the extent to which business entities fulfil their economic, legal, ethical, and discretionary responsibilities expected from or imposed on them by relevant stakeholders. Although, from an academic viewpoint, this definition of corporate citizenship is not very helpful as it appears to be conceptually confusing, it is still well accepted and prominently employed by business practitioners.

The Extended View of Corporate Citizenship

This view on corporate social responsibility begins with an understanding of the idea of citizenship that is dominant in most of the industrialised societies which is based on the liberal tradition. Here, citizenship is defined in terms of a set of individual rights that may be categorised into three:

- Social rights that provide an individual with the liberty to participate in society. These include right to education, healthcare or other forms of social welfare. They may also be referred to as positive rights since they specify entitlements from third parties.
- Civil rights which protect individuals from abuses and interference by third parties, especial government. These may include rights to own private property, freedom of speech and the rights to engage in free markets. They are usually described as negative rights because they protect individuals from the interference of stronger powers.
- Political rights include the rights to vote or be voted for. This generally speaking, enable the individual to take part in the process of collective will formation beyond the sphere of his or her own privacy.

Given that it is the responsibility of government to uphold these rights for individual citizens, at its face value, the idea of corporate citizenship is difficult to understand. This is especially so because social and political rights cannot be easily regarded as the entitlements for a corporation. Nonetheless, corporations may be regarded as citizens, not because they have entitlements like any real citizen, but because they are powerful public actors that have a responsibility to respect the rights of real citizens. Besides, the failure of government to fulfil some of its statutory functions and the increase in corporate power show that corporate entities have, in reality, taken on a definite political role in society.

As such, corporations take on citizenship at the point at which government fail to be the only counterpart of citizenship. In this regard, corporations may be said to have partly taken over governmental functions in respect of the protection, facilitation and promotion of citizen’s rights. Consider the examples below:

- Social rights: in developing countries where governments cannot or do not want to address the welfare of citizens effectively, corporations have taken up the responsibility of providing good working environment, ensuring that workers get a living wage, provision of schools, medical facilities and other social amenities under the name of corporate citizenship.
- Civil rights: given the increasing influence of corporations in contemporary society, they can exert pressure on government to live up to their responsibilities in the protection of the civil rights of citizens. In this regard, many oil corporations operating in the Niger Delta region of Nigeria are found wanting in the roles they play in the restriction of the rights of the indigenous people in the area.
- Political rights: while there has been an increasing apathy in elections in many countries, individuals appear to be more willing to engage in political actions against corporations rather than government. This has made corporations more vulnerable to political pressures.

On the basis of an understanding of the emerging roles of businesses in the administration of social, civil and political rights, the extended view of corporate citizenship maintains that corporate citizenship is about the corporate function of administering the citizenship rights for individuals. Social rights are administered for citizens through the provision or non-provision of social amenities or services. Civil rights are administered through the enabling role of either capacitating or restraining citizen's civil rights. From the perspective of political rights, corporations are now an additional avenue through which individuals can exercise their political rights.

Corporate citizenship may be the result of a voluntary, self interest driven corporate initiative or may be public pressure driven. Although, many corporations claim that they do not want take up any political role in society, they are often constrained to do so due to pressure from activists or out of necessity.

An Evaluation of the Idea of Corporate Citizenship

The important question here is to determine if the idea of corporate citizenship provides a new and useful way of approaching business ethics in comparison to the idea of corporate social responsibility, stakeholder theory or any other relevant theory. While it appears that the limited and equivalent perspectives do not quite add anything new to our understanding of business ethics, the extended view seems to add new things. These include the following:

- It illuminates better, the political role of corporations and clearly articulates the demand for corporate accountability.
- It helps us to understand better some of the challenges presented by the on-going process of globalisation.
- It provides a more critical view on the social role of business .

- It outlines new goal for business ethics with regards to the rights of citizenship, which include rights to equality, and a safe and clean environment .

Conclusion

This lecture discussed the factors necessitating the evolution of the idea of corporate citizenship as well as three perspectives on its meaning; the limited, equivalent and the extended. The extended view has been identified that view that brings a new perspective into business ethics.

Post-Test

1. Discuss the factors underpinning the evolution of the idea of corporate citizenship.

2. Identify the various views on the idea of corporate citizenship.

3. Which of the views on corporate citizenship do you consider to be the most significant. Give reasons for your position.

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LECTURE EIGHT

Corporate Governance

Introduction

There has been a global clamour for improvement in corporate governance structure. A reason for this is the collapse of big corporate entities as Enron in the United States of America due to large scale fraud committed by their directors and auditors. Indeed, many of the corporations in recent times are found to engage in acts of mismanagement and decisions that are inimical to the interests of the stakeholders and survival of the corporate entity. It is believed that the installation of sound corporate governance would result in companies being diligently directed by their boards and management. When one thinks about corporate governance, one has in mind a corporate body whose stakeholders are supposedly guided by a set of rules and regulations that ensures that no single individual is able to dominate the activities of the corporate entity and that it is properly and efficiently administered.

Objectives

After studying this chapter, readers will be able to do the following:

1. Explain the concept of corporate governance.
2. Describe the nature, significance and scope of corporate governance.
3. Identify threats to effective corporate governance.
4. Evaluate the theoretical framework of corporate governance.

Pre-Test

1. Define what corporate governance is.
2. Discuss the significance and scope of corporate governance.
3. Identify some of the threats of effective corporate governance.

CONTENT

Meaning of Corporate Governance

The expression "corporate governance" refers to the set of mechanisms through which outside investors are protected from expropriation by insiders in corporation. According to the Oxford Advanced Learner's Dictionary of Current English, 7th Edition, the word 'expropriation' means:

(a) Government or an authority officially taking away private property from its owner for public use.

(b) Taking somebody's property and using it without permission.

Expropriation takes several and different dimensions which include the following:

(a) Outright theft or wrongful conversion of assets.

(b) Approving excessive executive compensation package which erodes the cash resources of the corporation and corruptly enriches top management.

(c) Entrenchment of inept management team which lacks focus and runs the corporate body ineffectively.

(e) Committing hard-earned resources on unproductive ventures which benefit only a privileged few.

Corporate governance deals with the ways suppliers of finance to corporations assure themselves of getting a return on their investments. They make sure that managers do not misappropriate the capital or invest in bad projects. Hence, corporate governance is understood primarily as being about the prevention of the kind of theft that can be executed by either the management or board or both of them.

Nature, Scope, Significance and Threats to Good Corporate Governance

Nature

(a) It encompasses efficient and effective asset management in consonance with the ambit of regulatory, compliance and risk management principles.

(b) Good corporate governance shows the commitment of management to adhere to sound and appropriate conduct.

(c) It promotes the commercial life and profitability of a firm.

(d) Good corporate governance ensures the compliance and enforcement of best corporate practices.

(e) Good corporate governance facilitates sound and enduring business procedures, processes and policies. These mitigate risks and bring about optimal operational activities.

(f) It facilitates internal audit monitoring and evaluation of the internal controls which are designed to mitigate all kinds of risks.

Scope of Corporate governance

Corporate governance covers the areas of compliance with the corporate and company law, code of best practices and ethical norms, risk management so as to safeguard assets from expropriation and the installation and maintenance of internal audit functions in their helper and appraisal roles.

Significance

The following are some of the reasons why corporate governance is important:

(a) It facilitates the production of quality goods and the supply of efficient and economic services at the least possible cost.

(b) Good governance is the system by which corporations are managed. It means the obligation to ensure appropriate and adequate controls over a corporation's operations so as to achieve the key objectives set in an ever changing environment.

(c) It is a scientifically outlined way of generating a competitive and reasonable return on investment for the shareholders.

(d) It serves as an effective means of preventing fraud, corporate failure and collapse. Indeed, the collapse of big corporations such as Enron in the United States of America and Polly Peck and Maxwell Communications in the United Kingdom was attributed to the large scale fraud perpetrated by their directors and auditors.

(e) Effective corporate governance enables an establishment to evolve business excellence. It is capable of enhancing board competence and teamwork which will result in much improved benefits to the shareholders.

Threats to Effective Corporate Governance

Inadequate information about members of board and management: In most corporations, shareholders have information about the boards and members of top management, as well as about the general affairs of the company only at Annual General Meetings that are poorly attended. Besides, information distributed are substantially window dressed.

Insincerity on the part of members of board and management: Directors and management staff who are entrusted with the running of the affairs of businesses usually see standards put in place to enhance corporate governance as a set of rules to be circumvented.

Ignorance on the part of stakeholders: stakeholders are often ignorant of their statutory corporate rights and responsibilities. This renders them more vulnerable to expropriation and other forms of exploitation. Indeed, the existence of a body of well informed and educated stakeholders would enhance corporate governance.

Means of Enhancing Corporate Governance

The following some of the ways corporate governance could be enhanced:

Recognition and codification of the roles and responsibilities of boards and management: Corporations should facilitate the efficient discharge of the responsibilities and duties of directors and management by law. This can be achieved by ensuring that appropriate rules and regulations are put in place to guide directors and management on how to run corporate affairs. It would also be necessary for adequate arrangement to be made to ensure that laid down rules and regulations are followed.

The nature and structure of the board: The board should consist of distinguished individuals from diverse backgrounds. The board should to be structured in such a way that it can achieve three ends which are stated thus:

(a) Proper understanding of, and ability to effectively address the matters of the company.
(b) Effective review and appraisal of the output of management.
(c) Exercise of incisive and unbiased judgment.

Independence of the Board: the board should consist of individuals with independent status and minds. They should be independent of management and free of all business and other relationships which could or be perceived to interfere with the exercise of independent judgment with regards to the affairs of the corporation.

Well articulated Code of conduct: the indexes of moral behaviour within the corporation should be well defined, published and machinery should also be set up to ensure that they are followed by all the directors, top management, and employees.

Verification of financial reports: Each corporate entity should have a structure to independently verify and preserve the sanctity of the its financial reporting. Hence, there is a need for a formidable structure of review and authorization to ensure that there are truthfulness and accuracy in published information on the company's financial position.

***Publication of relevant information about the company*:** shareholders should have free, undiscriminating and timely access to all necessary information on the company's operations . This includes its financial position, governance, ownership structure and performance. Such information should be factual and presented in unambiguous and standardized formats.

Respect for Shareholder's Rights: The shareholder's rights should be respected and facilitated effectively. A company ought to empower its shareholders by effectively communicating with them and making it easy for them to attend general meetings.

Effective system of risk management: good corporate governance requires a good theoretical framework which recognises and manages risks effectively. This is essential for the survival of a corporation, especially in the face of the global economic crisis. This calls for the tools of identification, assessment, monitoring and managing all kinds of risks relating to production, marketing, financing, and inflation.

Adequate remuneration: companies should evolve adequate remuneration policies that would encourage and maintain competent and motivated employees, top management and directors, in the bid to achieve enhanced performance. To this end, it is important for corporate entities to clearly state the relationship between performance and remuneration. Additionally, the policy which underlies executive remuneration should be understood by investors.

Corporate social responsibility: corporations owe a number of legal, social and moral obligations to non-shareholder stakeholders such as employees, communities and customers or clients. These obligations should be adequately met.

Agency Problems in Corporate Governance

Agency problems which emanate in relation to corporate governance are many and diverse. They include the following:

(a) Divergence in the private interests of the agents of a company, such as board members and top management, and those of the corporate entity. When the individual interests of agents are contrary to those of the corporate body, there is goal incongruity, misapplication of resources, lack of trust, possible fruitless litigations, inability to earn a fair reward on the capital employed and complete corporate failure.

(b) Many corporate boards rather than perform their statutory roles, focus on board room' politics, thereby derailing from their avowed responsibilities. Others are not sufficiently informed about the nature of the business of the company. Some board members even see their positions as mere status symbols.

(c) There is also the problem of inappropriate relationship between boards and top management. Sometimes, there may be a problem of over-bearing boards that do not give their chief executive officers enough room to function effectively. Alternatively, some chief executive officers and top management are uncooperative with the boards. There is also the instances in which directors are mere cronies of the chief executive officer. Such directors cannot serve as watchdogs, nor can they perform their oversight functions.

(d) The task of selecting new board members is sometimes entrusted on the chief executive officers who tend to select people that they can trust. The consequence is that such board members are not able to perform the statutory functions of performance evaluation, counsel and criticism that chief executive officers need to function effectively.

Corporate Governance in Nigeria.

As a means of obtaining good governance in Nigeria, the Securities and Exchange Commission and the Corporate Affairs Commission instituted a seventeen member committee in June 2000. Membership of the committee cut across regulatory bodies, personalities and disciplines. The terms of reference of the committee were to :

(a) Identify lapses in the current corporate governance practices in Nigeria, with respect to public companies.

(b) Examine practices in other jurisdictions with a view to adopting international best practices in corporate governance in Nigeria.

(c) Make recommendations on appropriate changes to be effected in the current corporate governance practices.

(d) Examine other issues which relate to corporate governance in Nigeria.

The committee came up with a draft code of corporate governance on 12 July, 2001. The final report focused on Code of Best Practices on Corporate Governance in Nigeria and was approved by the Boards of the Securities and Exchange Commission, being the regulatory authority of the capital market, and the Corporate Affairs Commission being the regulatory authority of companies in

Nigeria. The code primarily centred on directors who are in charge of corporate organisations, and also on the responsibilities of other stakeholders, shareholders and professional bodies.

The Code of Best Practices (2003)

The code identified three key-players in the implementation process and prescribed the functions and responsibilities for each of them. These are the boards of directors, shareholders and audit committees.

<u>Boards of Directors</u>

Their functions and responsibilities are highlighted below:

(a) Responsibilities of Board of Directors:

(i) The board of directors should be in firm control of the affairs of the company in a lawful, efficient and effective manner, such that the organisation may increasingly improve on its value creation.

(ii) The board should, with due regard to stakeholders' interests, ensure that the value created is shared among the interested parties such as the shareholders and employees.

(b) Functions of a Board of Directors:

These should include, but not limited to, the following:

(i) Strategic planning.

(ii) Selection, performance appraisal and compensation of senior executive members.

(iii) Succession planning.

(iv) Communicating with the shareholders.

(v) Ensuring the integrity of financial controls and reports.

(vi) Ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria.

(vii) The chairman of the board has the primary responsibility is to ensure effective operation of the board and as much as possible distance himself from the day-to-day running of the company which is the primary responsibility of the chief executive officer and management team.

(viii) The board is the main custodian of the corporation's accountability.

(ix) It moderates the conflicting interests of the stakeholders.

(c) Composition of Board of Directors: The board should be composed in a way that ensures the diversity of experience, without compromising compatibility, integrity, and independence. Members of the board should possess the following attributes:

(i) Uprightness in character

(ii) Distinctive competencies

(iii) Knowledge on board matters

(iv) Entrepreneurial bias

(iv) Sense of accountability, integrity, commitment to the task of corporate and institutional building

In addition to the above,

(v) The position of the chairman and chief executive officer should be separated and held by different persons.

(vi) There should be a strong non-executive independent director as vice chairman of the board, where the position of the chairman and chief executive officer are combined in one individual.

(d) Managing the Affairs of the Board:

(i) The board should meet regularly, at least once in a quarter, with sufficient notices and a formal or agenda of deliberations, so as to maintain effective control over the company, the executive and management.

(ii) There should be an agreed procedure for directors to, if necessary, take independent professional advice. The cost of this should be borne by the company, in furtherance of their duties.

(iii) All directors should have access to the advice and services of the company secretary who should be appointed by the board and is responsible for ensuring that corporate procedures are followed and that applicable rules and regulations are complied with. His removal should be decided by the board only.

(iv) All the directors should have access to the advice and services of other professionals in the areas where such assistance will improve the quality of their contributions to the overall decision making process.

(e) The Position of Non-Executive Directors

(i) Non-executive directors should bring independent judgment to bear on issues such as integrity, performance, resource management, making key appointments and maintenance of ethical standards.

(ii) Shareholders' approval is required where directors' service contracts are to exceed three years.

(iii) Other than their fees and allowances, non-executive directors should not be dependent on the company for their income. They should be independent and not be involved in any business relationship with the company as this could encumber their independent judgment.

(iv) Non-executive directors should neither participate in the company's share option scheme nor be pensionable by the company.

(v) An appointment as non-executive director should be for a specified period and re-appointment should be a product of excellent performance.

(vi) The entire board should decide the appointments of non-executive directors. These should be done through a well-defined formal selection process.

(vii) Skills mix of executive non-directors should reflect the range of the competencies needs of the company.

(viii) Proper company and board orientation should be undertaken by newly appointed directors and, where necessary, formal training aimed at making them effective in the discharge of their duties should be given at company cost.

(f) The Role of Executive Directors

(i) There should be full and clear disclosure of directors' total emolument, those of the chairman and highest paid director, including pension contributions, stock options, where the earnings are in excess of ₦500,000.00.

(ii) Executive directors should not play any active role in the determination of their remuneration,.

(e) Compensation of Board Members

(i) The remuneration of executive directors should not be fixed in the shareholders' meeting, but by the board.

(ii) The remuneration should be recommended by the appropriate committees, wholly or mainly composed of non-executive/independent directors and chaired by a non-executive director.

(iii) Directors' emolument and those of the chairman and the highest paid director should be disclosed. The same holds for stock options and any pension contribution; and future service contract.

(f) Reporting and Control

(i) It is the duty of the board to present a balanced, reasonable and transparent assessment of the company's position.

(ii) In financial and non-financial reporting, there is an overriding need to promote transparency.

(iii) It is the primary responsibility of the board to ensure efficient and effective internal control system.

(iv) The board should ensure that objective and professional relationship is maintained with external auditors.

(v) External auditors should not be involved in business relationship with the company.

(vi) There should be an audit committee of at least three non-executive directors who have written terms of reference which deal clearly with its authority and duties.

(vii) A report on the effectiveness of the company's system of internal control should be presented by the directors in the annual report.

<u>The Role of Shareholders and Shareholders' Rights and Privileges:</u>

(i) The company, through the directors, should ensure that shareholders' and general rights are protected every time.

(ii) It should be the responsibility of the shareholders to elect directors and approve the terms and conditions of their directorship positions.

(iii) The venue of the annual general meeting should be carefully chosen such that shareholders could attend and vote and not be disenfranchised as a result of distance and cost.

(iv) Before the annual general meeting, notices should be dispatched at least 21 working days, with such details as annual reports, audited financial statements and other information that would enable the shareholders to vote properly on any issue.

(v) A separate resolution should be proposed by the board at the general meeting on each substantive issue in such a way that they could be voted for in an organized manner.

(vi) The board has to ensure that decisions reached at the general meetings are implemented.

(vii) There should to be at least one director on the board to represent minority shareholders.

(viii) Unless they are in a competing business or have conflicts of interest that warrant their exclusion, shareholders holding more than 20% of the total issued share capital of the company should have a representative on the board.

(ix) The board should ensure equal treatment of all shareholders, such that none is given preferential treatment or superior access to information or any other material privilege.

(x) The annual general meeting should be recognized by the board as the most potent avenue to communicate with the shareholders and encourage their participation.

The Rights and Privileges of Institutional Investors

(i) Shareholder activism by institutional or organized shareholders' group should not be discouraged by the board.

(ii) Institutional and non-institutional shareholder with larger holdings should act and influence the standard of corporate governance positively, thereby ensuring the optimization of stakeholders' value.

(iii) Information made available to institutional shareholders should also be made available to other shareholders at the same time and in such a manner as to ensure that neither group enjoys preferential treatment.

The Place of Audit Committee

(i) Audit committees should be established by companies, with the primary idea of raising the standard of corporate governance.

(ii) The committee should not be under the influence of any dominant personality on the main board, neither should it interfere with the executive management.

(iii) Audit committees should not act as a barrier between external auditors and the executive directors or encourage the main board to abdicate responsibilities in reviewing and approving the financial statements.

(iv) Audit committees should be made up of strong, independent and knowledgeable personalities from different backgrounds.

Composition of an Audit Committee

(i) An audit committee should be established in accordance with Section 330 (3) of the Companies and Allied Matters Act, Cap. C20, LFN 2004, with not more than one executive director'.

(ii) A majority of the non-executive members serving on the committee should be independent of the company in terms of management or business, or other relationship, which could materially interfere with the exercise of their independent judgment as committee members.

(iii) A non-executive director nominated by members of an audit committee should serve as the chairman.

(iv) Membership of an audit committee should be for a fixed tenure, however, any member is eligible for re-election.

(v) The secretary of the audit committee should be the company secretary, auditor or such other person nominated by the committee.

Conclusion

This lecture discussed the idea corporate governance. It began with a clarification of the meaning of corporate governance before examining the nature, scope, significance and threats to good corporate governance. We also discussed efforts to institutionalise corporate governance in Nigeria. Three key-players in the implementation of corporate governance were identified and their prescribed functions and responsibilities were discussed. These are the boards of directors, shareholders and audit committees.

Post-Test

1. Discuss the nature and significance of corporate governance.
2. Examine any five means of enhancing corporate governance.

3. Discuss the essential functions of the Board of Directors with regards to corporate governance.
4. Outline the agency problems that may arise in connection with corporate governance.

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LECTURE NINE

Globalisation and Business Ethics

Introduction

The word, globalization, is one of the catchwords in contemporary times. However, there is no unanimous perspective on it as it subject to an intense debate regarding its meaning and desirability. Within business circles, there seems to be much enthusiasm about globalization as it is believed to facilitate economic growth, global welfare, democracy and global peace. On the other hand, it has also been criticised as being characterised by the imposition of Western, especially American, cultural values on other cultural values. Specific reference is often made to the imposition of democracy and capitalism in the political and economic sectors.

Objectives

The objective of this lecture is three-fold:

1. To clarify the idea of globalisation.
2. To explain the relevance of globalisation to business ethics.
3. To discuss some ethical challenges of global business.

Pre-Test

1. Define what globalisation is.
2. In what ways does the process of globalisation affect the practice of business?
3. Identify some of the ethical threats that globalisation confronts business with.

CONTENT

The meaning of globalisation

The process of globalisation is subject to many interpretations, which is borne out of the fact that it is quite complex as it involves many features. These include the following:

- Internalisation of trade activities. This consist of an increase in the level of cross-border trade transactions.
- Market liberalisation. A distinct feature of globalisation is trade liberalisation and various forms of market deregulation.
- Universalisation of goods, services, lifestyles, and pattern of consumption. This involves the distribution of goods and services beyond the confines of national boundaries.

- Westernisation of the world. This is one of the major points of criticism against globalisation. It is perceived to result in the imposition of Western cultural values and ideals on other cultural values and ideals.

However, the features highlighted above exclude at least two other important components of globalisation that have facilitated the other four features highlighted above: the technological and political components. Modern technology, especially in the area of communication and transportation (radio, television, telephone, internet and air travel), has made it possible for people to connect and interact in spite of wide geographical gulf among them. Today, the people we do business with or even relate with as friends do not need to be in the same geographical location with us.

The existence of political borders have hindered global connections between people. However, these borders are being eroded now due to the process of liberalisation. Indeed, technological advancement and the erosion of political borders have greatly facilitated proliferation of supraterritorial interconnections. It is for this reason that globalisation is construed to also involve a process of deterritorisation or the erosion of the territorial basis for economic, political and social relationships and processes.

Business Ethics and Globalisation

There are at least three important areas in which the process of globalisation is important for business. These are the areas of culture, law and accountability. We would now examine each of these in turn.

Culture

Due to the process of globalisation, business entities increasingly engage in overseas market. This brings them in contact with new, varied and at times contradictory cultural demands and ethical standards. In the face of such cultural and ethical standards, moral standards and cultural values that were hitherto taken for granted are queried when business concerns engage in foreign markets. For instance, the attitude to such issues as child labour, gender relations and laying off of employees differ significantly from Africa, Asia, Middle East to Europe and USA. While child labour is tolerated in Africa and Asia, it is close to a sacrilege and very unethical in Western Europe and USA.

Hence, it is important that corporations are well informed about the culture prevalent in the regions where they wish to engage in business activities as this would to a large extent define their level of success. For instance, a sausage or alcoholic beverage factory would not be very welcome in an area dominated by a Muslim population. Likewise, the kind of advertisement that would gain acceptance in the more liberal societies of Europe and America, for instance, would be rejected in the more conservative societies of Asia and the Middle East.

Law

As economic and business transactions become independent of certain political territories, they are liberated from the control of the specific national governments. As soon as a corporation leaves its home territory and locates its activities to another country, the legal framework within which it would have to operate changes. Hence, business managers operating in the global arena cannot depend on the legal framework of their home country when deciding on what is proper or improper for business to do.

Besides, by the nature of deterritorialised businesses, managers cannot simply rely the legal framework of any given national government and consequently would have to depend more on the ethics of business. Hence, it is often remarked that because global business is usually beyond the control of national government, there is an increased demand for business ethics. This seems to confirm the view that business ethics begins where the law ends. By way of example, it seems obvious that global financial markets and such issues as internet pornography are not easily subject to the control of any national government.

Accountability

Corporations are not just the dominant actors in the global arena, many of them have grown to be more economically powerful than many national governments. While national governments are accountable to their citizens, the managers of these increasingly powerful corporations are only accountable to their shareholders. What this shows is that the more globalised a corporation is, the less governments can control it, and the less they are open to the democratic control of the people that are affected by their operations.

Nonetheless, the clamour for democratic accountability of the global corporations, usually called multinational corporations (MNCs), has increased with the increase in their economic power and relevance in contemporary times. Indeed, the process of globalisation leads to a growing demand for corporate accountability.

Key Forces Behind Globalisation of Business

There are at least four factors that drive the process of business globalisation:

- ***Convergence of markets:*** this connotes the fact that corporations increasingly sell their products across the world and this brings them into competition with other corporations in or from other countries.
- ***Global competition:*** this implies that corporate competitors come from different cultures with different perceptions and expectations of business and of the nature of competition. This global competition have significant impacts on the local economy within which it takes place.
- ***Cost advantage:*** the pursuit of lower cost of production has led many corporations from USA and Europe to take the search for alternative sources of raw materials, product's component, and even the site for the production of their products to less developed countries, especially in Asia.
- ***Government influence:*** the final decision of where to locate production site, as well as where to source for product's components or raw materials is largely influenced by government policies on such issues as standards of working practices and health, safety and environment protection.

As a result of the globalisation of business, there has been a radical reshaping of ethical considerations and problems that arise from global business transactions as opposed to those that arise from a purely local business. This reshaping can be seen in the following ways:

- ***Different ways of transacting business:*** when a business entity comes into contact with overseas business associates, it comes into contact with diverse ways of thinking about and evaluating business and business ethics. This reveals that some business practices that are morally acceptable at home may be questionable in a different cultural environment, and vice versa. Some of the important ethical issues that a corporation operating in the global arena would have to be aware of include gift giving, bribery, and corruption as different countries have different perceptions on and attitudes to these issues.

- ***Impacts on indigenous businesses:*** the exposure of small indigenous businesses to the competition of major multinational corporations (MNCs) tend to severely threaten the businesses of the former and can even lead to their extinction. Alternatively, it can serve as an impetus for innovation, better products, lower prices and economic growth if the competition is between more or less equal competitors. The important ethical questions to ask here relate to the fairness of competition and whether or not there is a need to protect indigenous companies as unfair competition between MNCs and small indigenous companies can threaten the viability of the entire local industry and possibly lead to other social and economic decay.
- ***Differing labour and environmental standards:*** as MNCs from Western societies source for product components through supply chains, a prominent ethical question they would have to contend with relates to the labour and environmental conditions under which their suppliers operate. This is especially so because lower costs are often always accompanied with poor labour conditions, less environmental protection and lower attention to health and safety protection. Hence, sourcing products or products components from lower-cost countries may raise crucial ethical questions about workers remuneration, conditions of service, and child labour .
- ***Extended chain of responsibility:*** hitherto, it might have been acceptable to argue that the ethics of a firm's supplier has nothing to do with the firm or that the way a firm's activities affect its competitors is none its business. However, given that business is no longer conducted within the confines of national communities with definite legal provisions and generally agreed upon rules and regulations for conducting business, it is now important for

corporations to consider their ethical responsibilities more broadly. This need is described as the extended chain of responsibility.

Conclusion

This lecture focused on some of the major ways business and business ethics have been affected by the process of globalisation. We started with an examination of the meaning and features of globalisation before discussing three areas in which the process of globalisation is important for business. These are the areas of culture, law and accountability. We also discussed four factors that drive the process of business globalisation. These are convergence of market; global competition; cost advantage; and government influence. Some of the important ethical issues that are generated within the context of global business were also discussed.

Post-Test

1. What is globalisation and how does it affect the practice of business.
2. discuss the significance of globalisation for business.
3. Discuss factors that drive the process of globalising business
4. Examine some of the ethical issues that are generated within the context of global business.

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LECTURE TEN

Ethical Investment

Introduction

Ethical investment is also known as socially responsible investing, sustainable investing, socially conscious investing, and green investing. It may be traced back to the decision of the Religious Society of Friends (Quakers) in 1758 to prohibit their members from participating in the slave trade. Indeed, many of the best known applications of ethical investment are religiously inspired, with the underlining principle that investors should avoid sinful business transactions and any sinful company that produce harmful items such as guns, tobacco and alcohol.

However, the modern dispensation of ethical investment evolved in the 1960's when socially concerned investors sought to address ethical issues pertaining to civil rights, labour rights and equality of women. By the late 1990's ethical investments became defined in terms of environmentally sustainable development. Today, ethical investors also focus on the rights of indigenous people around the world that are affected by unethical business practices along with other social concerns. These include healthy working environment, fair wages, and product safety.

Objectives

The objective of this lecture includes the following:

1. A clarification of the idea of ethical investment.
2. An identification of the criteria for ethical investing.
3. A discussion of types of ethical funds.

Pre-Test

1. What is ethical investment?
2. Highlight the general criteria for ethical investment.

CONTENT

The meaning of ethical investment

Ethical investment refers to any business strategy that seeks to balance financial return with social good. It refers to business practices that seek to avoid harm by screening companies to be included in an investment portfolio. By doing this ethical investors promote environmental stewardship, consumer protection, and human rights. In the spirit of ethical investments, businesses that are avoided include those that are involved in alcohol, tobacco, gambling, arms and ammunition, and pornography.

Ethical investment is becoming increasingly prominent in contemporary society with the general public getting increasingly concerned about corporate accountability. Hence, many shareholders today include ethical considerations in their investment decisions. They look for profitable investments that, at the same time, accords with stipulated ethical standards. In view of the above, ethical investment may be defined as involving employing ethical, social, and environmental criteria in the selection and management of investment portfolios.

Investing Strategies

Ethical investors employ several strategies to maximise both financial returns and social good. These may be broadly categorised into two; negative screening or criteria and positive screening or criteria. Apart from the moral reasons for ethical investment, it is also reasonable from the financial perspective. For instance, the risk associated with the possible boycott of products or environmental disasters can affect the performance of shares, consequently making 'ethical companies' less risky investments. In addition, the likely success and acceptance of ethical products make them to be potentially more profitable than unethical products.

Negative screening: this excludes some companies from investment consideration on the basis of some undesired features which might be certain ethical, social or environmental criteria. Negative screening, for example, lead many investors to avoid tobacco companies. Other negative criteria for excluding companies from investment include:

- Alcoholic beverages production and retail
- Animal rights violation
- Child labour
- Companies operating in or trading with oppressive and tyrannical governments
- Environmentally hazardous processes or products
- Weapons
- Pornography
- Nuclear power
- Genetic engineering
- Poor employment policies and practices.

Positive Screening: this involves making investments in companies believed to have a number positive features or social impact. It allows investors to positively express their values regarding corporate behaviour issues such as social justice, environmental protection, sustainable development. Some of these positive criteria include the following:

- Ethical employment practices
- Public transportation
- Conservation and environmental protection
- Community development practices
- Green technologies

In practice, however, the choice of the proper criteria to adopt and the companies to invest in may not be clear-cut or easy to make. For instance , you find some electronic companies producing components for household appliances and also for weapons. Also, banks may provide funds for different kinds of industries, including those that do not comply with the ethical values and expectations of the investor.

Types of Ethical Funds

There are two basic types of ethical funds: market-led funds and deliberative funds.

Market-led funds: these are the funds that choose companies to invest in on the basis of the indication of the market. These funds operate by gathering information about the ethical performance of companies from various researches. However, given individuals may not agree with the indication of the market with regards to the ethical status of companies. For instance, companies considered to be ethical by certain researches or the market may not be considered as truly ethical by some individual investors.

Deliberative funds: deliberative funds make their investment decisions on the basis of their own ethical criteria. To do this effectively, fund managers need to regularly research into and assess the practices of companies. Indeed, deliberative funds tend to provide investors with detailed ethical criteria while market-led funds merely provide a list of companies regarded as ethical by the market.

Conclusion

In this lecture, we focused on the idea of ethical investment which has been construed to involve employing ethical, social, and environmental criteria in the selection and management of investment portfolios. We also examined some of the major criteria for ethical investment, which have been broadly categorised into two: the negative and the positive criteria. Two major types of ethical funds have also been discussed, the market-led ethical funds and the deliberative market funds.

Post-Test

1. What is ethical investment and why is it becoming popular today?
2. Discuss the two basic forms of criteria for ethical investment and identify the basic problem with them .
3. Examine the major types of ethical funds.

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