**BUSINESS ETHICS AND CSR**

**ANSWER SCHEME**

**PART A**

1.It is a situation of conflicting interests of stakeholders.

2.Study of moral judgement or the value that is placed on decisions about what is right or wrong, good or bad.

3.Set of values, beliefs, goals ,norms that organisations employees shows in their work environment.

4.Ethics practices in workplace.

5.An ethical dilemma is a decision making problem between two possible moral imperatives, neither of which is unambiguously acceptable or preferable.

6.Utilitarian approach, Rights approach ,Justice approach ,Virtue approach

7.The system by which corporate bodies are managed or controlled.

8.The ability of a company to outsmarts its competitors consistently over a long period of time.

9.GRI is a non-profit organisation and aim of this organisation is to make CSR reporting as common and comparable as financial reporting.

10.CSR activities for the protection of environment.

11.Principles concerning the distinction between right and wrong.

12.It includes a sense of connection to something bigger than ourselves and it typically involves a search for meaning in life.

**SEC B**

13.Maketing ethics deals with the moral principles behind the operation and regulation of marketing.

14.Act of the Parliament of India enacted in 1986 to protect the interests of consumers in India.

15.

* Pre-conventional level : common in children, although adults can also exhibit this level of reasoning. Reasoners at this level judge the morality of an action by its direct consequences.
* Conventional :Good intentions are determined by social consensus.
* Post – conventional :laws are valid only as they are grounded in justice

16.

* District consumer protection council : It is a district level court that deals with cases valuing up to 2 million.
* State consumer protection council : cases valuing less than 10million.
* Central council : deals with cases exceeds Rs.1 crore

17.

* Reduces risk
* Attract long term capital
* integrity of management
* accountability and ability of the board
* participation of stakeholders
* quality of corporate reporting

18.

Character based model : All decisions must take into account the interests and well being of all stakeholders.

PLUS Model : Leaders give importance to following factors while taking decisions.

 P - POLICIES

 L – LEGAL

 U – UNIVERSAL

 S – SELF

19.

* Disclosure of report in correct time
* Reduce fraud
* Reduce misleading information

20.

* setting up of a systematic CSR decision making structure
* formulating effective plan
* communicating CSR plans
* enforcing employees to implement CSR plans
* establishing measurable standards of CSR
* conducting CSR audit

21.The unique working atmosphere and behaviours of every organisation is called organisational culture.

**SEC C**

22.

* **Perfect Competition**

Perfect competition describes a market structure, where a large number of small firms compete against each other. In this scenario, a single firm does not have any significant market power. As a result, the industry as a whole produces the socially optimal level of output, because none of the firms have the ability to influence market prices.

The idea of perfect competition builds on a number of assumptions: (1) all firms maximize profits (2) there is free entry and exit to the market, (3) all firms sell completely identical (i.e. homogenous) goods, (4) there are no consumer preferences.

* **Monopolistic Competition**

Monopolistic competition also refers to a market structure, where a large number of small firms compete against each other. However, unlike in perfect competition, the firms in monopolistic competition sell similar, but slightly differentiated products. This gives them a certain degree of market power which allows them to charge higher prices within a certain range.

Monopolistic competition builds on the following assumptions: (1) all firms maximize profits (2) there is free entry and exit to the market, (3) firms sell differentiated products (4) consumers may prefer one product over the other.

* **Oligopoly**

An oligopoly describes a market structure which is dominated by only a small number firms. This results in a state of limited competition.

The oligopolistic market structure builds on the following assumptions: (1) all firms maximize profits, (2) oligopolies can set prices, (3) there are barriers to entry and exit in the market, (4) products may be homogenous or differentiated, and (5) there is only a few firms that dominate the market.

* **Monopoly**

A monopoly refers to a market structure where a single firm controls the entire market. In this scenario, the firm has the highest level of market power, as consumers do not have any alternatives. As a result, monopolists often reduce output to increase prices and earn more profit.

The following assumptions are made when we talk about monopolies: (1) the monopolist maximizes profit, (2) it can set the price, (3) there are high barriers to entry and exit, (4) there is only one firm that dominates the entire market.

23.



| **BASICS** | **CSR PYRAMID** | **INTERSECTING CIRCLES MODEL** |
| --- | --- | --- |
| ***General Description*** | Hierarchy of separate responsibilities | Nonhierarchical set of intersecting responsibilities | Integration of responsibilities; all sharing a central core |
| ***Theoretical Assumptions*** |
| **Nature of CSR** | Normative restraints of responsiveness | Classification framework; no normative guidance | Incurred obligation to work for social betterment |
| **Scope of Responsibilities** | Narrow | split | Wide |
| **Total CSR** | Conjunction | Disjunction | Integration |
| **Order of importance** | Hierarchy; Economic responsibility first | No prima facie order | Inclusion system; economic circle at the core |
| **Role of Philanthropy** | “Icing on the cake” | Subsumed under economic/ethical responsibilities | Integral part of CSR |
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24. **1. APPLICABILITY:**

**Section 135(1)**of the Companies Act, 2013 (hereinafter to be referred as ‘the Act’) provides for the trigger point for the applicability of CSR Provisions and constitution of CSR Committee. The constitution of CSR committee is mandatory in company having:

* Net Worth of Rs. 500 Crore
* Turnover of Rs. 1000 Crore
* Net Profit of Rs. 5 Crore

during *any financial year*.

**2. ANALYSIS OF THE TERM NET PROFIT:**

The aforesaid definition of ‘net profit’ as per **Rule 2(f)**provides for ‘net profit as per the financial statements prepared in accordance with the applicable provisions of the act’.

**3.COMPOSITION OF CSR COMMITTEE:**

As per **Section 135(1)**, three or more Directors including at least one Independent Director shall form CSR Committee.

However, for the companies which are not required to have Independent Director shall constitute CSR Committee without Independent Director and the private companies having only two Directors shall constitute CSR Committee only with two such Directors as provided in **Rule 5(1)** of the Companies (CSR Policy) Rules, 2014.

4. **DISCLOSURE IN BOARD REPORT:**

As per **Section 135(2)**read with **Rule 8**, the Board’s Report prepared under Section 134 shall contain the disclosures of the Composition of CSR Committee as per prescribed Annexure under [**Companies (CSR Policy) Rules, 2014**](https://taxguru.in/company-law/govt-notifies-csr-rules-wef-01042014-companies-spend-2-profit.html).

5. **ROLE OF CSR COMMITTEE:**

As per **Section 135(3)**, following are the roles and responsibilities of CSR Committee:

* Formulate a CSR Policy indicating the activities as per Schedule VII to the Act;
* Recommend the policy to Board of the Company;
* Recommend the amount of expenditure on the activities; and
* Monitor CSR Policy by way of instituting a transparent monitoring mechanism for implementation of CSR projects or programmes or activities undertaken by the company as provided in **Rule 5(2)**.

6. **ROLE OF BOARD OF DIRECTORS:**

As per **Section 135(4)**, following is the role of Board of Directors:

* Approve the CSR Policy;
* Disclose the contents of policy on the company’s website, if any;
* Ensure that activities as included in CSR Policy have been undertaken.

7. **CSR EXPENDITURE:**

As per**Section 135(5)**, at least 2% of the average net profits of the company during three immediately preceding financial years must be spent against CSR as provided in CSR Policy.”

8. **FAILURE TO SPEND CSR FUND:**

If a company fails to pay amount allocated for CSR, then such company shall make such disclosure in the Board’s Report. Such company shall also specify the reason of failure to spend CSR Fund.

9. **CSR Policy:**

As per **Rule4,**following points must be considered while drafting the CSR Policy:

(1) CSR policy shall specifically provide activities which are to be undertaken by the Company during the financial year;

(2) CSR Policy shall not include the activities which are in the normal course of the business of the Company;

(3) CSR policy shall provide for the activities to be executed in India only to be covered under Section 135;

(4) CSR policy may provide for the activities which are for the benefit of the employees of the company. However, such expenditure on such activity will not considered as CSR expenditure;

(5) The companies can build their own capacities of their own personnel as well as those of their implementing agencies through Institutions with established track records of last three financial years. However, administrative overhead in any case shall not exceed 5% of total CSR expenditure in one financial year.

As per **Rule 6,**following shall be included in CSR Policy:

(1) The list of programmes or projects which finds its place in the purview of Schedule VII;

(2) The modalities for exaction of CSR projects;

(3) The schedules for implementation of CSR projects;

(4) Monitoring process of such projects;

(5) Specific declaration to the effect that surplus arising out of the CSR projects shall not form part of the business profit of a company.

10. **CSR ACTIVITIES:**

As per **Rule 4(2)**, the Companies can spend its CSR expenditure through registered trust, society or section 8 companies.

1. The law has granted companies to come together to form a trust, society or section 8 company for this purpose.

2. The Companies can also undertake CSR activities through a company established under section 8 of the Act or a registered trust or a registered society established by the Central Government or State Government or any entity established under an Act of Parliament or a State Legislature.

25.

* Teleological approach: In this case a right action has good consequences; a wrong action has bad consequences. Actions are judged as ethical and unethical based on their results.
* Egoism approach: this theory interprets “right action as action whose consequences, considered among all the alternatives maximizes my good that is action that benefits me the most or harms me the least.”
* Justice approach: Ethics of justice, also known as morality of justice deals with moral choices through a measure of rights of the people involved and chooses the solution that seems to damage the least number of people.
* Utilitarianism approach: to a utilitarian, the choice that yields the greatest benefit to the most people is the choice that is ethically correct.
* Relativism: Different groups of people ought to have different ethical standards for evaluating act as right or wrong