

CHAPTER - 6

SOCIAL RESPONSIBILITIES OF BUSINESS & BUSINESS ETHICS

- **Introduction**

A business enterprise should always do business keeping the people in mind, business is a part & parcel of the society and it draws all the necessary resources from the society only so it should have some social responsibilities. It should not do anything which is harmful to interest of the society. It must not resort unethical means to increase profits. Here we shall see a few ethics to be followed by businesses.

- **Concept Mapping**

- Concept of social responsibility
- Need for social responsibility
- Arguments for social responsibility
- Arguments against social responsibility
- Reality of Social responsibility
- Kinds of Social Responsibility
- Social Responsibility towards different interest groups
- Business and Environmental Protection
- Types of Pollution
- Causes of Pollution
- Need for Pollution Control
- Role of Business in Environmental Protection
- Business Ethics
- Concepts of Business Ethics
- Elements of Business Ethics

- **Key Terms**

Social Responsibility

Social Responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of objectives and values of our society.

Environment

The environment is defined as a totality of natural & man-made things existing around us. It is from the environment that the business draws its resources.

Business Environment

It is a totality of all external forces with which the business interacts constantly but over which it does not have any control. The environment influences the business directly to a great extent.

Environmental Protection

It is the deliberate process of protecting the environment from existing or potential threats of any nature.

Pollution

It is the process of emission or release of harmful substances into the environment which harms human life, the life of other species and wasting or depleting scarce sources.

Ethics

Ethics is concerned with what is wrong & what is right in a society based on its moral values & beliefs.

Business Ethics

It refers to the socially determined moral principles which should govern the business activities.

Legal Responsibility

It is the obligation of the business to abide by the laws governing the place at which it exists.

Code of Ethics

Enterprises with effective ethics programs do define their principles of conduct for the whole organization which is called the 'Code of Ethics'.

- **Concepts Explanation**

Concept of Social Responsibility

Social Responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of objectives and values of our society.

Need for Social Responsibility

Opinions are divided over this issue, for some - Business is responsible only to its owners & for others - It needs to be responsible for social welfare also. Anyhow a better business can survive & grow only in a better society because it takes all resources from the society and serve to the society. So businesses become integral part of the society, therefore they should assume social responsibility.

- **Arguments for social responsibility**

Justification for existence and growth

The ultimate motive of business is profit, as only profit can help the business grow and expand. Profit should be made as an outcome of service to the society by means of producing goods and services to satisfy human needs.

Long term interest of the firm

A firm and its image stand to gain maximum profits in the long run when it has its highest goal as 'service to society'. When increasing number of members of society feel that business enterprise is not serving its best interest, they will tend to withdraw their cooperation to the enterprise concerned. Therefore, it is in its own interest if a firm fulfills its social responsibility.

Avoidance of government regulations

When a particular business is not socially responsible, government regulations tend to limit its freedom. Therefore, it is believed that if businessmen are socially responsible, they can avoid government regulations.

Maintenance of Society

Law alone can't help out people with all the difficulties they face. When businesses turn socially responsible they take care of the society's need, the society is at peace. That means business houses also have some responsibility to contribute something for social peace & harmony.

Availability of Resources with Business

The business enterprises have huge financial resources, very efficient managers & contacts and thereby they can ensure that a social problem can be solved easily, in the best way possible.

Converting problems with opportunities

Business with its glorious history of making risky situations into profitable deals can not only solve social problems but also make them effectively useful.

Better environment for doing business

If the business is to run in a society with diverse problems, the success of the business is limited. Therefore, if the business takes measures to resolve the social problems, the business can create a better environment for its functioning and thereby earn more profits.

Holding business responsible for social problems

It is argued that many problems are created by the existence of business enterprise themselves – like environmental pollution, discriminated employment, corruption etc. Therefore it is the duty of business to set right the problems caused by them.

- **Arguments against social responsibility**

Violation of maximization of profit motive

This statement argues that business exist only for maximizing profits and businesses fulfill their social responsibility best by maximizing profits by increasing efficiency and reducing costs. They need not take up any additional obligations.

Burden on Consumers

Taking social care and tackling social problems require huge financial investments and businesses tend to increase their cost and put the burden on the consumer for their charitable expenses.

Lack of social skills

Businessmen lack understanding of social problems and can't solve them efficiently.

People's resistance

People tend to dislike interference from businesses in their problems.

Reality of Social Responsibility

Whatever maybe the argument, either in favour of or against social responsibility, the reality is in favour of social responsibility. Let us discuss some of them below.

Threat of Public Regulations

Democratically elected governments, through their law enforcing agencies continuously trying to ensure the welfare of the society and thus they have a watchful eye over all business operations. So to avoid government action business organizations should behave in a socially responsible manner.

Pressure of labour movement

Labour, is not only the active factor but also activates other factors of production. Nowadays, they are more educated and their movement becomes more powerful in the world. No more 'hire and fire' policy will work; this made the businessmen to take up social responsibility towards their employees.

Impact of Consumer Consciousness

Consumers are more conscious about quality, price etc. of the product and services. Even for small discrepancies, nowadays they prefer to file a suit in the consumer court.

Development of Social Standard for business

New social standards consider business enterprises as legitimate but with a condition they must also serve social needs.

Development of Business Education

Business education created much awareness about the social responsibility in the minds of investors, consumers, employees etc. and they became more sensitive towards social issues.

Relationship between social interest and business interest

Now people come to realize that social interest and business interest are complementary. This ensures long term benefit of the business.

Development of professional, managerial class

Earlier managers of business houses aimed at only profit maximization but professional management educational institutions created a new class of managers who gives equal importance to social responsibility too.

Conclusion

From the above seen 'Realities of Social Responsibility' it is clear that business houses must assume social responsibility for their survival and growth.

- **Kinds of Social Responsibility**

Economic Responsibility

Maximizing profit by producing and selling goods and services required for the society.

Legal Responsibility

Every business needs to operate within the laws of the land. A law abiding enterprise is a socially responsible enterprise as well.

Ethical Responsibility

This includes the behavior of the firm that is expected by the society but not included in law. Eg. Should respect religious sentiment and dignity of people while advertising

Discretionary Responsibility

This refers to the voluntary obligations that an enterprise assumes.

E.g. Charitable contributions, providing relief during natural calamities etc.,

Social Responsibility towards different interest groups

A business unit has to decide in which areas it should carry out social good. Few areas are explained below.

Responsibility towards shareholders or owners

To provide fair return on their investment, ensure safety of their investment and to provide regular, accurate and full information about the business.

Responsibility towards the workers

To provide opportunities for meaningful work, create the right kind of working conditions, respect the democratic rights of the workers and ensure a fair wage deal from the management.

Responsibility towards the consumer

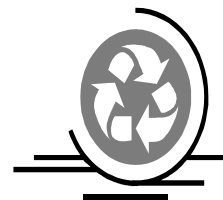
To provide right quality and quantity of goods and services at reasonable prices and to avoid adulteration, hoarding, dishonest and misleading advertisements.

Responsibility towards the government & community

To respect the laws of the country and pay taxes regularly and honestly and act according to well accepted values of the society and to protect environment.

Business & Environmental Protection

Protection of the environment is a serious issue that confronts business managers and decision makers. Business organizations are major pollutants so they have to do something to control pollution.



Causes of Pollution

Waste generated by various industries, agriculture, mining, construction, energy production, transportation etc., cause pollution.

Environmental Problems

Pollutions results in following environmental problems identified by UNO

- | | |
|-----------------------------------|-------------------------------------|
| 1. Ozone Depletion | 5. Deforestation |
| 2. Land Degradation | 6. Global Warming |
| 3. Solid & Hazardous Wastes | 7. Water Pollution |
| 4. Danger to biological diversity | 8. Fresh water quality and quantity |

- **Types of Pollution**

Air Pollution

Carbon monoxide emitted by automobiles, smoke and other chemicals from manufacture and pollutes the air & lowers its quality. It also created a hole in the ozone layer leading to global warming.



Water Pollution

This is primarily from chemical and waste dumping into water bodies. This lead to death of several animals and posed a serious threat to human life.

Land Pollution

Dumping of toxic wastes reduces the quality of land and making it unfit for agriculture or plantation.

Noise Pollution

Noise caused by the running of factories and vehicles create a serious health hazard such as loss of hearing, malfunctioning of the heart and mental disorders.

- **Need for Pollution Control**

To preserve precious environmental resources & improve the quality of human life pollution control becomes essential. Let us list out some reasons for pollution control.



Reduction of health hazard

Pollution control measures can check diseases like cancer, heart attack & lung complications and support a healthy life on earth.

Reduced Risk of Liability

When people are affected by toxicity released by any business, the business is liable to pay compensation. If the business installs pollution control devices, it can escape from such a liability.

Cost Saving

Pollution control needs improved production technology which automatically reduces cost.

Improved Public Image

A firm that promotes the cause for environment will enjoy public confidence and good reputation.

Other social benefits

Cleaner buildings, cleaner roads, clearer visibility, better quality of life, availability of natural products in a purer form are some of the other social benefits the society can get through proper pollution control system.

- **Role of business in environmental protection**

Most of the pollution is caused by business enterprises and therefore they should take the lead in providing their own solutions to environmental problems. Some of the specific steps that can be taken by a business are as follows.

1. A definite commitment by top management to systematically protect environment.
2. Involving all divisions and sections of employees in environmental protection.
3. Developing clear cut policies and programs with regards to quality, method and process of production and disposal of waste.
4. Complying with laws of the land in relation to environmental protection.
5. Participation in government programs such as management of waste, forestation etc.
6. Periodical assessment of pollution control programs of their own, with a view to improve them.
7. Arranging educational workshops and training materials to share technical information with everyone involved in pollution control.

- **Business Ethics**

Business ethics refers to the socially determined moral principles which should govern business activities.

Examples of Business Ethics

- Charging fair prices
- Using correct/accurate weights
- Giving fair treatment to all employees
- Avoiding adulteration, hoarding etc.
- Not engaging in any illegal methods of operation and not doing anything which is being considered as undesirable by the society.



- Using environmentally friendly products, methods and processes.

Which businesses need to behave ethically?

All businesses irrespective of size (big or small), nature and location should behave ethically.

Why should businessmen behave ethically?

The businessman gets access to all resources such as finance, human capital, land etc. from the society and makes profits by selling the same to the society. Therefore he needs to be ethical and shouldn't make profit at the cost of society.

Benefits of doing Ethical Business

- Ethical business is good business
- It improves public image and support
- Earns people's confidence and trust
- Leads to greater success
- Helps in long-term standing

• Elements of Business Ethics

Top Management commitment

Higher level managers need to be openly and strongly committed to ethical conduct. They should continuously try and uphold the values of the organization and the society.

Publication of a 'code'

'Code' refers to the written ethical programs followed by a particular business or industry – which normally covers the areas of honesty, adherence to laws, product's safety and quality and fairness in all dealings.

Establishment of Compliance Mechanism

Simply having a written 'Code of Ethics' is not sufficient, the business needs to ensure its effective implementation at all levels & throughout the life of the business.

Involving employees at all levels

To make ethical business a reality, employees at all levels must be involved.

Measuring Results

Measuring the results of ethics programs maybe difficult but can have an audit at regular intervals to monitor compliance with ethical standards and decide about further course of action.

Short Answer type Questions

For answers, please refer to Key terms.

1. What is Social Responsibility?
2. Define Environment.
3. Define Business Environment.
4. What is Environmental Protection?
5. Define Pollution.
6. What are Ethics?
7. Define Business Ethics.
8. What is meant by 'Legal Responsibility'?
9. What do you mean by 'Code of Ethics'?

Long Answer type Questions

1. Briefly explain any five points in favour of Social Responsibility of Business.

Ans. *Refer to Arguments for Social Responsibility*

2. What is meant by Social Responsibility? & Briefly explain the responsibility of business towards

- i. Shareholders
- ii. Employees
- iii. Consumers and
- iv. Government

Ans. *Refer to Key Term – Social Responsibility & Concepts Explanation - Social Responsibility towards different interest groups*

Possible 6Mark Questions

1. Argue for (any 3 points) & against (any 3 points) 'Social Responsibility of Business'.

Ans. *Refer to Arguments for & against social Responsibility in Concepts explanation*

2. Recent changes in the attitude of business people towards social responsibility are based on the realities. Explain any four of such realities.

Ans. *Refer to Concepts Explanation – Realities of Social Responsibility*

• Higher Order Thinking Skills Questions (HOTS)

Q1. You are appointed as a CEO of a leading manufacturing company having many branches across the country. Explain the steps which you can take to ensure business ethics in your organization.

Ans. *Refer to Concepts Explanation – 'Elements of Business Ethics'*

Q2. 'Installation of effective pollution control system will reduce the cost and risk of liability and improve public image'. Explain.

Ans. Refer to 'Need for Pollution Control'

Q3. A business indulges in following activities. Say, social responsibility towards of which group is being violated.

- a) Pay lesser wages than what is fair
- b) Providing product of substandard quality
- c) Manipulates its accounts to show lesser profits and to pay lesser tax
- d) Releases toxic waste material into the air
- e) Indulges in price discrimination

Ans. Social responsibility towards employees, consumers, government, society & consumers.

- **Gist of the Lesson:**

- ❖ *Business draws all the required resources & facilities from the society and therefore it is obliged to show its responsibility by the means of acting in the society's best values.*
- ❖ *Societal interest & Business interest are not contradictory but complimentary so the long run interest of the business lies in the societal interest only therefore apart from profit maximization business must take into consideration social well being also.*
- ❖ *A socially responsible business is one which is not only ensuring higher return to the owners by the way of profit maximization but also one which is*
 - *Using environment friendly production process*
 - *Paying fair salary to employees*
 - *Producing and selling quality goods and services*
 - *Paying tax properly to the government*
- ❖ *Socially responsible business unit should have its own 'Code of Business Ethics' to respect and fulfill the values of the society and seriously pursue business ethics at all levels and among all employees in the organization.*
- ❖ *A better business can be established only in a peaceful & harmonious society.*