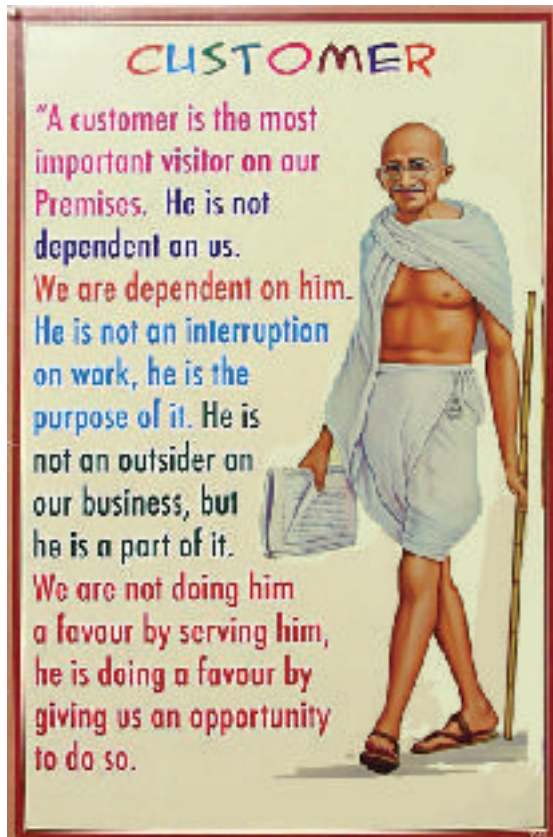


UNIT V SERVICE BUSINESS - III

CHAPTER

17

SOCIAL RESPONSIBILITY OF BUSINESS



Introduction

A business entity carries out economic activities on a regular basis to earn profits. These entities spend money on different aspects of business which do not give them profit directly. For example, businessmen take the responsibility of maintaining and



*Purpose of
Social Responsibility of
Business*

Learning Objectives

To enable the students to

- have better understanding of the concept of Social Responsibility
- identify the need for studying Social Responsibility
- comprehend on different view points for and against Social Responsibility
- specify various kinds of Social Responsibilities

developing gardens and parks on streets and squares in cities. Some businessmen engage themselves in research for improving the quality of products; some provide housing, transport, education and health care to their employees and their families. In some places businessmen provide free medical facility to poor patients. Sometimes they also sponsor games and sports at national as well as international level.

17.01 Concept of Social Responsibility

The term social responsibility is defined in various ways. Every businessman earns prosperity from business and should give back the benefit of this prosperity to society. This is voluntary. This benefit is the moral responsibility of business. As this benefit is supposed to be passed on to society, it can be said to be social responsibility of business.



Definition of Social Responsibility

The following are some important definitions of social responsibility

“Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society.”

– **Howard R.**

“Social Responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony”.

Peter F. Drucker

17.02 Need for Social Responsibility

Business is expected to be responsible to society due to the following reasons

1. Self-Interest

A business unit can sustain in the market for a longer period only by assuming some social obligations. Normally businessmen recognise that they can succeed better by fulfilling the demands and aspirations of society. People who have had a higher standard of living and have been exposed to an environment conducive to healthy growth make better employees and customers for business than those who are poor, ignorant and oppressed. For example, provision of higher wages and good working conditions motivates workers to work hard and produce more. Labour turnover and absenteeism are reduced.

2. Creation of Society

Business is a creation of society and uses the resources of society. Therefore, it should fulfil its obligations to society. Businessmen should respond to the demands of society and should utilise the social resources for the benefit of the people at large. In the long run a successful business can be built on the foundations of a happy community and a satisfied work force.

3. Social Power

Businessmen have considerable social power. Their decisions and actions affect the lives and fortunes of the society. They collectively determine for the nation such important matters as level of employment, rate of economic progress and distribution of income among various groups. Businessmen should assume social obligations commensurate with their social power. The government controls and regulations intervene in the social power of business in the absence of business taking up social responsibility. It is, therefore, the moral and right thing for business enterprises to assume social obligations.

4. Image in the Society

A business can improve its image in public by assuming social obligations. Good relations with workers, consumers and suppliers help in the success of business. Social obligations improve the confidence and faith of people in a business enterprise.

5. Public Awareness

Now-a-days consumers and workers are well informed about their rights. Consumers expect better quality products at reasonable prices. Similarly, workers desire fair wages



and other benefits. They exercise pressure on the employer's through-trade unions. There will be industrial unrest and conflict in society, if business does not fulfil its obligations.

6. Free Enterprise

A business enterprise which accepts and discharges social obligations enjoys greater freedom. For example, the government has passed the Consumer Protection Act to prevent businessmen from indulging in adulteration, black marketing and other anti-social practices. Thus, social responsibilities are essential for avoiding governmental action against business. Such action will reduce the freedom of decision making in business.

7. Law and Order

Any business unit can survive and grow only when there is law and order in society. If business exploits the weaker sections of society for too long, these sections will take the law in their own hands. The resulting chaos will threaten the very survival of business.

8. Moral Justification

In a large country like India, government alone cannot solve all the problems. Business has money and talent with which it can assist the government in solving problems. For example, business can play a vital role in solving regional disparities, unemployment, illiteracy, scarcity of foreign exchanges and such other problems in the country. Moreover, business has created some social problems such as pollution, health hazards, etc. Therefore, business should help society in solving its problems.

9. Socio-Cultural Norms

India has a rich cultural heritage. Businessmen who help in preserving and promoting this heritage will naturally enjoy the patronage of the society and the government. Business should, therefore, promote equality of opportunity, healthy relations with employees and customers, etc.

10. Professionalism

Management of business enterprises is being professionalised. An owner-manager nurses a greater greed for profiteering because all the gains go to him. But a salaried and qualified manager is less likely to be lured because he does not benefit from the profits earned through questionable practices.

11. Trusteeship

Mahatma Gandhi suggested that "those who own money or property should hold and use it in trust for society." Businessmen should run business firms not for their self-enrichment but for the good of the society.

17.03 Arguments For and Against Social Responsibility

Arguments for social responsibility

The rationale for assuming social responsibility lies in the following arguments;

1. Protection of Stakeholders Interest

A business organisation is a coalition of several interest groups or stakeholders. Example – shareholders, customers, employees, suppliers, etc. Business should, therefore, work for the interest of all of them rather than for the benefit of shareholders / owners alone.

2. Promotion of Society

Business is a sub-system of society. It draws support and sustenance from society in the form of inputs. Socially responsible behaviour is essential to sustain this relationship between business and society.

3. Assessment of Social Impact

During the course of its functioning, a business enterprise makes several decisions and actions. Its activities exercise a strong influence on the interests and values of society. Business must fulfil social obligations as a compensation for undermining the legitimate interests of society.

4. Organised Social Power

Large corporations have acquired tremendous social power through their multifarious operations. Social power may be misused in the absence of social responsibility. There should be an equilibrium between social power and social responsibility.

5. Legitimacy

It is in the enlightened self-interest of business to assume social responsibility. Social responsibility legitimises and promotes the economic objectives of business. By improving social life, business can obtain better customers, employees and neighbours. Social responsibility thus builds good citizenship as well as good business.

6. Competence

Business organisations and their managers have proved their competence and leadership in solving economic problems. Society expects them to use their competence to

solve social problems and thereby play a leadership role.

7. Professional Conduct

Professional managers are required to display a keen social sensitivity and serve the society as a whole. Social responsibility is one of the professional demands on managers. They adhere to the code of conduct and ethics applicable to respective area of operation.

8. Public Opinion

Adoption of social responsibility as an objective will help to improve the public opinion of business. A good public image is a valuable asset for business. For example maintaining parks, traffic islands and organising awareness camps etc.,

Arguments Against Social Responsibility

Critics of the social responsibility concept put forward the following arguments:

1. Lack of Conceptual Clarity

The concept of Social responsibility is very vague and amenable to different interpretations. There is no consensus on its meaning and scope. In such a situation, it would be futile as well as risky to accept social responsibility.

2. Dilution of Economic Goals

By accepting social responsibility, business will compromise with economic goals. Business is an economic institution and its only responsibility is to make maximum possible profits for its owners. It would endanger its economic viability by accepting any other responsibility.

3. Lack of Social Skill

Business organisations and their managers are not familiar with social affairs. There are special social service organisations such as Government and Non-Governmental Agencies which can better deal with social problems.

4. Burden on Consumers

If business deals with social problems, cost of doing business would increase. These costs will be passed on to consumers in the form of higher prices or will have to be borne by owners. This would lead to taxation without representation.

5. Responsibility without Power

Business organisations possess only economic power and not social power. It is unjust to impose social responsibilities with social power. If business is allowed to intervene in social affairs it may perpetuate its own value system to the detriment of society.

6. Misuse of Responsibilities

Acceptance of social responsibilities will involve diversion of precious managerial time and talent on social action programmes. It may result in dilution of valuable corporate resources.



7. Lack of Yard-stick

Profitability is the common criteria for decision-making in business. Tampering it with social responsibility would make the decision-making process quite complex and controversial.

8. Improper Role

The proper role of business is to use its resources and energies efficiently so as to earn the best possible return on investment within the confines of law and ethics. Business should concentrate on economic performance leaving social service to other organisations.

9. Over Loading Responsibility

Business organisations are already serving society by providing goods and services, generating employment, developing technology and contributing to public exchequer through tax payments. It would be unjust to overburden them with further responsibilities.

17.04 Kinds of Social Responsibility

Social responsibility of business can broadly be divided into four categories, which are as follows:

Kinds of Social Responsibility

1. *Economic Responsibility*

A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit. There is little discretion in performing this responsibility.

2. Legal Responsibility

Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.

3. Ethical Responsibility

This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product. There is an element of voluntary action in performing this responsibility.

4. Discretionary Responsibility

This refers to purely voluntary obligation that an enterprise assumes, for instance, providing charitable contributions to educational institutions or helping the affected people during floods or earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

17.05 Social Responsibility towards Different Interest Groups

After identifying the concept and importance of social responsibility of business the various responsibilities that a business has towards different groups with whom it interacts are discussed below. The business generally interacts with owners, investors, employees, suppliers, customers, competitors, government and society. They are called as interest groups because by each and every activity of business, the interest of these groups is affected directly or indirectly.

Responsibility of Business Towards Different Interest Groups



- | | |
|----------------|-----------------|
| i. Business | ii. Investors |
| iii. Employees | iv. Government |
| v. Competitors | vi. Society |
| vii. Customers | viii. Suppliers |

1. Responsibility towards Owners

Owners are the persons who own the business. They contribute capital and bear the business risks. The primary responsibilities of business towards its owners are to

- Run the business efficiently.
- Proper utilisation of capital and other resources.
- Growth and appreciation of capital.
- Regular and fair return on capital invested.

2. Responsibility towards Investors

Investors are those who provide finance by way of investment in debentures, bonds, deposits etc. Banks, financial institutions, and investing public are all included in this category. The responsibilities of business towards its investors are :

- Ensuring safety of their investment,
- Regular payment of interest,
- Timely repayment of principal amount.

3. Responsibility towards Employees

Business needs employees or workers to work for it. These employees put their best effort for the benefit of the business. So it is the prime responsibility of every business to take care of the interest of their employees. If the employees are satisfied and efficient, then the only business can be successful. The responsibilities of business towards its employees include:

- Timely and regular payment of wages and salaries.
- Proper working conditions and welfare amenities.
- Opportunity for better career prospects.
- Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc.
- Better living conditions like housing, transport, canteen, crèches etc.
- Timely training and development.

4. Responsibility towards Suppliers

Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:

- Giving regular orders for purchase of goods.
- Dealing on fair terms and conditions.
- Availing reasonable credit period.
- Timely payment of dues.

5. Responsibility towards Customers

No business can survive without the support of customers. As a part of the

responsibility of business towards them the business should provide the following facilities:

- Products and services must be able to take care of the needs of the customers.
- Products and services must be qualitative
- There must be regularity in supply of goods and services

After learning about Social Responsibility of the business in this chapter, one can understand the significance of Social Responsibility. The next chapter is about Business Environment and Protection which deals with the organization taking steps to protect both internal and external environment for their sustained growth and development.

Success Story

Corporate Social Responsibility Examples in India

Tata Group



The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programs. Through self-help groups, it is engaged in women empowerment activities, income generation, rural community development, and other social welfare programs. In the field of education, the Tata Group provides scholarships and endowments for numerous institutions.

Source: www.tata.com

Mahindra & Mahindra



Indian automobile manufacturer Mahindra & Mahindra (M&M) established the K. C. Mahindra Education Trust in 1954, followed by Mahindra Foundation in 1969 with the purpose of promoting education. The company primarily focuses on education programs to assist economically and socially disadvantaged communities. CSR programs invest in scholarships and grants, livelihood training, healthcare for remote areas, water conservation, and disaster relief programs. M&M runs programs such as Nanhi Kali focusing on girl education, Mahindra Pride Schools for industrial training, and Lifeline Express for healthcare services in remote areas.

Source: www.mahindra.com/

Key Terms

Economic Activity, Stakeholders, Prosperity, Standard of living, Resources, Ethics



For Own Thinking

1. To identify ethical and unethical practices of business enterprises
2. To understand the level of discharging Socially Responsibility practises of business units
3. To analysis the impact of Social Responsibility of Small, Medium and Large scale enterprises in the Society.
4. To clearly distinguish the benefits derived by different stakeholders while discharging of Social Responsibility of business units



For future Learning

1. To evaluate the impact of social responsibility on profitability of business unit
2. To predict methods by which social responsibility can be discharged
3. To depict through pictures, the stakeholders position in a company taking socially responsible activities



Exercise



I. Choose the Correct Answer

1. Which type of Responsibility gives the benefit to the Society out of its profits earned?
 - (a) Legal
 - (b) Ethical
 - (c) Moral
 - (d) Economic
2. The Stakeholders of Socially Responsible business units are except
 - (a) Share Holders
 - (b) Employees
 - (c) Government
 - (d) Company
3. Assuming Social Responsibility of business helps the enterprise in
 - (a) Increase profit
 - (b) Decrease profit
 - (c) Sustainability
 - (d) Equilibrium



4. Socially Responsible business provides goods at

- (a) high price
- (b) low price
- (c) reasonable price
- (d) moderate price

5. Social Responsibility towards employees represents the following except

- (a) reasonable remuneration
- (b) proper facilities
- (c) Social security
- (d) exploitation

Answers

1. c 2. d 3. c 4. c 5. d

II. Very Short Answer Question

1. Give the meaning of Social power.
2. What is free enterprise?
3. What is Ethical responsibility?

III. Short Answer Question

1. Define the concept of Social Responsibility.
2. List the kinds of Social Responsibility. (any 3)

IV. Long Answer Questions

1. Explain the need for Social Responsibility. (any 5)
2. How do you classify the Social Responsibility?

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