Class XI Business Studies

Chapter 6 Social Responsibilities of Business

and Business Ethics

Revision Notes

Social Responsibility

- Social responsibility is an ethical framework and suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems
- Social responsibility is broader than legal responsibility of business. Legal responsibility may be fulfilled by mere compliance with the law.
- Social responsibility is more than that. It is a firm's recognition of social obligations even though not covered by law, along with the obligations laid down by law.
- In other words, social responsibility involves an element of voluntary action on the part of business people for the benefit of society

Need for Social Responsibility

Improving Company's Brand	Engaging Customer	Retaining Top Talent	Helping company stand out of competition
•A socially responsible company can create a company's image and build its brand. •By projecting a positive image, a company can make a name for itself for not only being financially profitable, but socially conscious as well.	•A social responsibility policy can impact the buying decisions of customers. •Some customers are willing to pay more for a product if they know a portion of the profit is going to worthy cause	•Many employees want to feel like they're part of something bigger. Social responsibility empowers employees to leverage the corporate resources at their disposal to do good	•When companies are involved in the community, they stand out from the competition. Building relationships with customers and their neighborhoods helps improve the brand's image.

Arguments for Social Responsibility

Protect the interests of stakeholders	To get the support of employees, it has become necessary for organisations to discharge responsibility towards their employees.
	Consumer does not buy what is offered to him. He buys what he wants. Consumer sovereignty has, thus, forced firms to assume social responsiveness towards them
	Fulfilling social obligations is beneficial for long-run survival of the firms
Long-run survival	A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society'
	It is in its own interest if a firm fulfills its social responsibility.
	The public image of any firm would also be improved when it support social goals
Self-enlightenment	With increase in the level of education and understanding of businesses that they are the creations of society, they are motivated to work for the cause of social good.
	Managers create public expectations by voluntarily setting and following standards of moral and social responsibility.
	Rather than legislative interference being the cause of social responsibility, firms assume social responsibility on their own.
Avoids government regulation	Government regulations are undesirable because they limit freedom.
	It is believed that businessmen can avoid the problem of government regulations by voluntarily assuming social responsibilities, which helps to reduce the need for new laws
	For example, Central Pollution Control Board takes care of issues related to environmental pollution
Resources	Business organisations have enormous resources which can be partly used for solving social problems.
	Businesses are the creation of society and must work in the best interest of society, both economically and socially.
	It can help society to tackle its problems better, given the huge financial and human resources at its disposal
Professionalisation and Better environment	Management is moving towards professionalism which is contributing to social orientation of business
	The ethics of profession bind managers to social values and growing concern for society
	A society with fewer problems provides better environment for a firm to conduct its business
Holding business responsible for social problems	Social problems have either been created or perpetuated by business enterprises themselves
	It is the moral obligation of business to get involved in solving these problems, instead of merely expecting that other social agencies will deal with them
Converting problems into opportunities	Business with its history of converting risky situations into profitable deals, can not only solve social problems but it can also make them effectively useful by accepting the challenge.

Arguments against Social Responsibility

Violation of profit maximisation objective	Business exists only for profit maximisation. Therefore, any talk of social responsibility is against this objective
	Business can best fulfill its social responsibility if it maximises profits through increased efficiency and reduced costs.
Burden on consumers	Social responsibilities like pollution control and environmental protection are very costly and often require huge financial investments
	Businessmen simply shift this burden of social responsibility by charging higher prices from the consumers instead of bearing it themselves
Lack of social skills	Businessmen do not have the necessary understanding and training to solve social problems
	Social problems should be solved by other specialised agencies
Lack of broad public support	Public in general does not like business involvement or interference in social programmes.
	Therefore, business cannot operate successfully because of lack of public confidence and cooperation in solving social problems

Reality of Social Responsibility

Threat of public regulation	where business institutions operate in a socially irresponsible manner, action is taken to regulate them for safeguarding people's interest. This threat of public regulation is one important reason due to which business enterprise feels concerned with social responsibility.
Pressure of labour movement	labour movement for extracting gains for the working class throughout the world has become very powerful. This has forced business enterprises to pay due regard to the welfare of workers instead of following a policy of 'hire and fire
Impact of consumer consciousness	Development of education and mass media and increasing competition in the market have made the consumer conscious of his right and power in determining market forces Now, customer is the king and business have started following customer oriented approach
Development of social standard for business	New social standards consider economic activity of business enterprises as legitimate but with the condition that they must also serve social needs. No business can be done in isolation from society
Development of business education	Development of business education with its rich content of social responsibility has made more and more people aware of the social purpose of business
Relationship between social interest and business interest	Business enterprises have started realising the fact that social interest and business interest are not contradictory. Instead, these are complementary to each other. long-term benefit of business lies in serving the society well
Development of professional, managerial class	Professional management education in universities and specialised management institutes have created a separate class of professional managers Professional managers are more interested in satisfying a multiplicity of interest groups in society for running their enterprises successfully than merely following profit goals

Kinds of Social Responsibility

Economic responsibility

- Business Enterprise's primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit.

Legal responsibility

- Every business has a responsibility to operate within the laws of the land
- a law abiding enterprise is a socially responsible enterprise aswell

Ethical responsibility

- Behaviour that is expected by society but not codified in law
- There is an element of voluntary action in performing this responsibility.

Discretionary responsibility

- 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
- For example: providing charitable contribution etc.

Social Responsibility towards different Interest Group

Responsibility towards the shareholders or owners

- organisation must also provide the shareholders with regular, accurate and full information about its working as well as schemes of future growth.
- business enterprise has the responsibility to provide a fair return to the shareholders or owners

Responsibility towards the workers

- the right kind of working conditions to be given so that it can win the cooperation of workers.
- The enterprise must respect the democratic rights of the workers to form unions.
- The worker must also be ensured of a fair wage and a fair deal from the management

Responsibility towards the consumers

- Supply of right quality and quantity of goods and services to consumers at reasonable prices constitutes the responsibility of an enterprise toward its customers.
- The enterprise must take proper precaution against adulteration, poor quality, lack of desired service and courtesy to customers, misleading and dishonest advertising, and so on.

Responsibility towards the government and community

- An enterprise must respect the laws of the country and pay taxes regularly and honestly.
- It must behave as a good citizen and act according to the well accepted values of the society.

Business and Environmental Protection

- The environment is defined as the totality of man's surroundings — both natural and man-made. These surroundings are also in the nature of resources, that are useful for human life.
- The resources may also be called natural resources like land, water, air, fauna and flora and raw materials; or manmade resources such as cultural heritage, socio-economic institutions and the people
- Pollution— the injection of harmful substances into the environment is, in fact, largely the result of industrial production
- Pollution changes the physical, chemical and biological characteristics of air, land and water
- Pollution exists because the environment can absorb only a limited amount of pollutants and wastes.
- Some hazardous wastes or toxic by-products and chemicals are termed as hazardous pollutants because they have toxic characteristics that the environment can not assimilate.
- Pollution thus causes risks to environmental quality, human health and damage to natural and man-made resources.
- Protection of the environment is directly related to the control of pollution.

Causes of Pollution

Air pollution	Water pollution	Land pollution	Noise pollution
• It is mainly due to carbon monoxide emitted by automobiles which contributes to air pollution. • Similarly, smoke and other chemicals from manufacturing plants pollute the air. • Resultant air pollution has created a hole in the ozone layer leading to dangerous warming of the earth	• Water becomes polluted primarily from chemical and waste dumping • Water pollution has led to the death of several animals and posed a serious threat to human life	• Dumping of toxic wastes on land causes land pollution. • This damages the quality of land making it unfit for agriculture or plantation	• Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. • Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

Need for Pollution Control

1. **Reduction of health hazards:**
   There is increasing evidence that many diseases like cancer, heart attacks and lung complications are caused by pollutants in the environment.
2. **Reduced risk of liability:**
   It is possible that an enterprise is held liable to pay compensation to people affected by the toxicity of gaseous, liquid and solid wastes it has released into the environment. Business must install pollution control devices in its premises to reduce the risk of liability.
3. **Cost savings:**

Cost savings are particularly noticeable when improper production technology results in greater wastes which leads to higher cost of waste disposal and cost of cleaning the plants.

4. **Improved public image:**
   A firm that promotes the cause for environment will be able to enjoy a good reputation and will be perceived as a socially responsible enterprise
5. **Other social benefits:**
   Pollution control results in many other benefits like clearer visibility, cleaner buildings, better quality of life, and the availability of natural products in a purer form

<u>Role of Business in Environment Protection</u>

I. A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.
II. Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.
III. Developing clear-cut policies and programmes for purchasing good quality raw materials, employing superior technology, using scientific techniques of disposal and treatment of wastes and developing employee skills for the purpose of pollution control.
IV. Complying with the laws and regulations enacted by the Government for prevention of pollution.
V. Participation in government programmes relating to management of hazardous substances, clearing up of polluted rivers, plantation of trees, and checking deforestation.
VI. Periodical assessment of pollution control programmes in terms of costs and benefits so as to increase the progress with respect to environmental protection.
VII. Arranging educational workshops and training materials to share technical information and experience with suppliers, dealers and customers to get them actively involved in pollution control programmes.

<u>Business Ethics</u>

- Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of a standard form of conduct/behavior of individuals, as approved by society in a particular field of activity
- Business ethics concerns itself with the relationship between business objectives, practices, and techniques and the good of society.
- Business ethics refer to the socially determined moral principles which should govern business activities
- Ethical business is good business. Ethical business behaviour improves public image, earns people's confidence and trust, and leads to greater success

<u>Elements of Business Ethics</u>


Top management commitment
•Top management has a crucial role in guiding the entire organisation towards ethically upright behaviour
•They must give continuous leadership for developing and upholding the values of the organisation
Publication of a 'Code'
•Define the principles of conduct for the whole organisation in the form of written documents which is referred to as the "code".
•This generally covers areas such as fundamental honesty and adherence to laws; product safety and quality; health and safety in the workplace; conflicts of interest; employment practices etc
Establishment of compliance mechanisms
•In order to ensure that actual decisions and actions comply with the firm's ethical standards, suitable mechanisms should be established
Involving employees at all levels
•It is the employees at different levels who implement ethics policies to make ethical business a reality.
•Therefore, their involvement in ethics programmes becomes a must
Measuring results
•It is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards.
•The top management team and other employees should then discuss the results for further course of action