

Social Responsibilities of Business and Business Ethics

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❖ Social Responsibility

➤ **Concept-** Social responsibility refers to the duties and responsibilities of business enterprises towards the society at large. As a business makes use of the society's resources to undertake production and earn profits, it becomes its moral duty to work towards the betterment of the society by taking up favourable activities.

❖ Need for Social Responsibility



Arguments for Social Responsibility The following points justify the need of social responsibility by business houses:

i. Existence and growth of business- The existence of a business depends on how efficiently it serves the society by providing goods and services and considering the various aspects of social responsibility.

ii. Long-term interest of a firm- Giving due consideration to the welfare of the society and serving the various members of that society can help a business gain maximum profits in the long run.

iii. Avoidance of government regulations- Working in line with the values and ethics of the society will help a business avoid unwanted government intervention.

iv. Availability of resources- As compared to other members of the society, business

enterprises have greater availability of financial and other resources at their disposal which can be effectively utilised for solving various social problems.

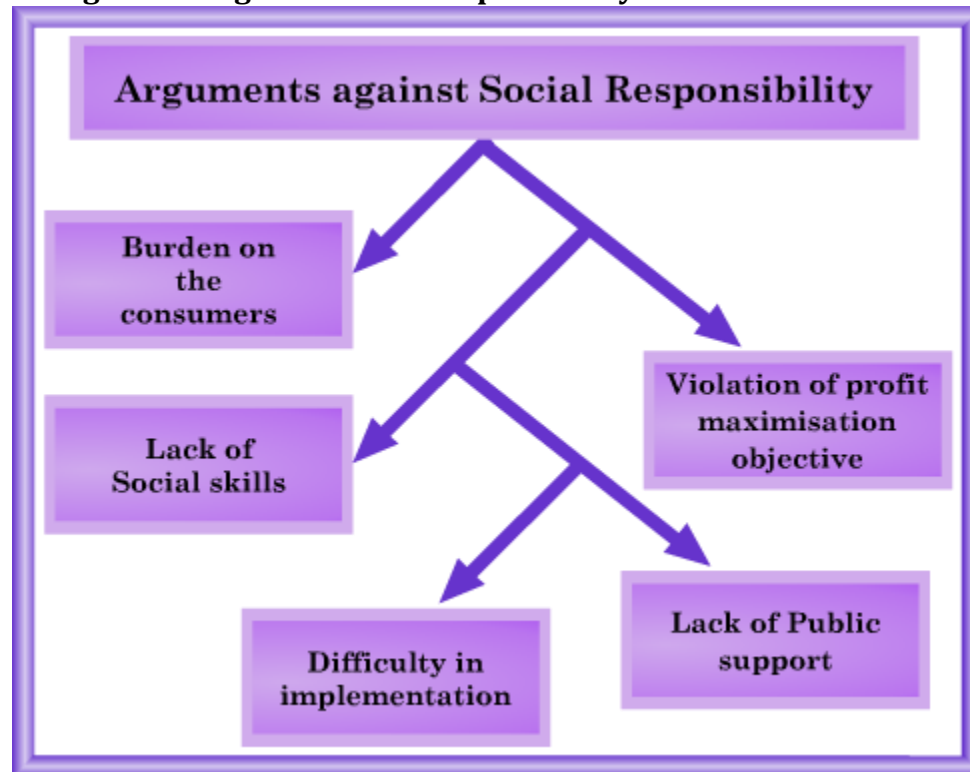
v. *Conducive business environment*- Solving social problems like unemployment, illiteracy and poverty will not just benefit the society but also the business house by creating a favourable environment for its working.

vi. *Social peace and harmony*- The interests of any business enterprise can be hampered if the members of the society feel that the activities of the business are against the social welfare. So, fulfilling various social responsibilities is a must for every business.

vii. *Creating opportunities out of problems*- A business organisation is said to convert the problems into opportunities for the individuals of the society. This helps in solving various social problems like unemployment.

viii. *Holding business responsible for social problems*- Often business enterprises are blamed for many social problems like pollution and corruption. So, it becomes all the more important for the business enterprises to give due consideration to such social problems.

❖ Arguments against Social Responsibility



i. *Violation of profit maximisation objective*- It is argued that a business enterprise exists primarily to make profits. Thus, engaging the business in solving social problems will deviate it from its primary objective.

ii. *Burden on the consumers*- Social responsibility initiatives often pose a huge financial burden on the business enterprises. This increased burden, however, is often passed on to the consumers in the form of higher prices.

iii. *Lack of social skills*- Business enterprises are basically attuned to solve business-related problems and many a times lack those specialised skills required to solve social problems.

iv. Lack of public support- In general, the public looks up to the government for solving complex social problems. As a result, business enterprises may face lack of public support and confidence in them for fulfilling such social responsibilities.

v. Difficulty in implementation- As social responsibility is a broad term, it becomes difficult for the business organisations to clearly identify and fulfil their social responsibilities.

❖ **Reality of Social Responsibility-** The various forces that are responsible for increasing the concern of business enterprises towards social responsibility have been presented diagrammatically below.



i. Threat of public regulation: Not working in line with the overall social welfare can attract unwanted government attention; this can further pose a threat to the image and goodwill of business enterprises. Thus, business enterprises should fulfil their social responsibility to avoid such instances.

ii. Pressure of labour: Overtime, an increase in the mobility of human capital has increased the pressure on business enterprises to pay attention to the welfare of the workers by providing them healthy working conditions along with good remuneration.

iii. Impact of consumer consciousness: As the consumers are increasingly aware of their rights and responsibilities, business enterprises are compelled to work more efficiently and produce better quality products at reasonable rates so as to satisfy their demands.

iv. Development of social standards: Modern business enterprises are not mere profit-making entities. To ensure long-term growth and survival, they must work towards fulfilling social responsibilities.

v. Development of business education: The spread of education over time has made consumers, investors, employees and owners more aware of various social problems,

thereby, making them more sensitive to social issues.

vi. Relationship between social interest and business interest: No business enterprise can work in isolation from society. In this regard, for their long term growth, the business must create a balance between business interests and various social interests.

vii. Development of a professional managerial class: Today's professional managers, in addition to the profit maximisation objective, are equally sensitive towards various social issues and make conscious efforts to satisfy the interests of all the members of the society.

Kinds of Social Responsibilities The following table presents the major kinds of social responsibility of businesses.

Social Responsibility	Meaning	Example
Economic responsibility	Undertaking economic activities like producing goods and services according to the needs and demands of the consumers and selling them at reasonable prices	◦ To take care of the interests of the investors and the shareholders
		◦ Efficient utilisation of economic resources
Legal responsibility	Respecting the laws and regulations of the country in which the enterprise operates	◦ To pay taxes on time
		◦ To operate within government laws and regulations
Ethical responsibility	Following only those business practices that are in line with the social values and ethics	◦ To produce good quality products to ensure safety to consumers
		◦ To respect the religious sentiments of different groups of consumers
Discretionary responsibility	Voluntarily choosing to contribute towards the betterment of the society	◦ To contribute towards the development of the weaker sections of the society
		◦ To generate employment opportunities for the people in the society



❖ Social Responsibilities towards Different Interest Groups

i. Responsibilities towards shareholders: As the owners and shareholders invest their money in the business, it is the responsibility of business enterprises to safeguard their investments and provide a fair and timely return.

ii. Responsibilities towards workers: It is the responsibility of the management to provide safe and harmonious working conditions along with a fair compensation to its employees so as to develop a sense of belonging in them.

iii. Responsibilities towards consumers: Every business enterprise must work to ensure maximum customer satisfaction through measures such as supplying high-quality products at fair prices, providing all the relevant information to the consumers and handling the grievances of the consumers.

iv. Responsibilities towards the government: A business enterprise must behave as a responsible citizen. In this regard, various measures should be taken by businesses to address environmental and social problems.

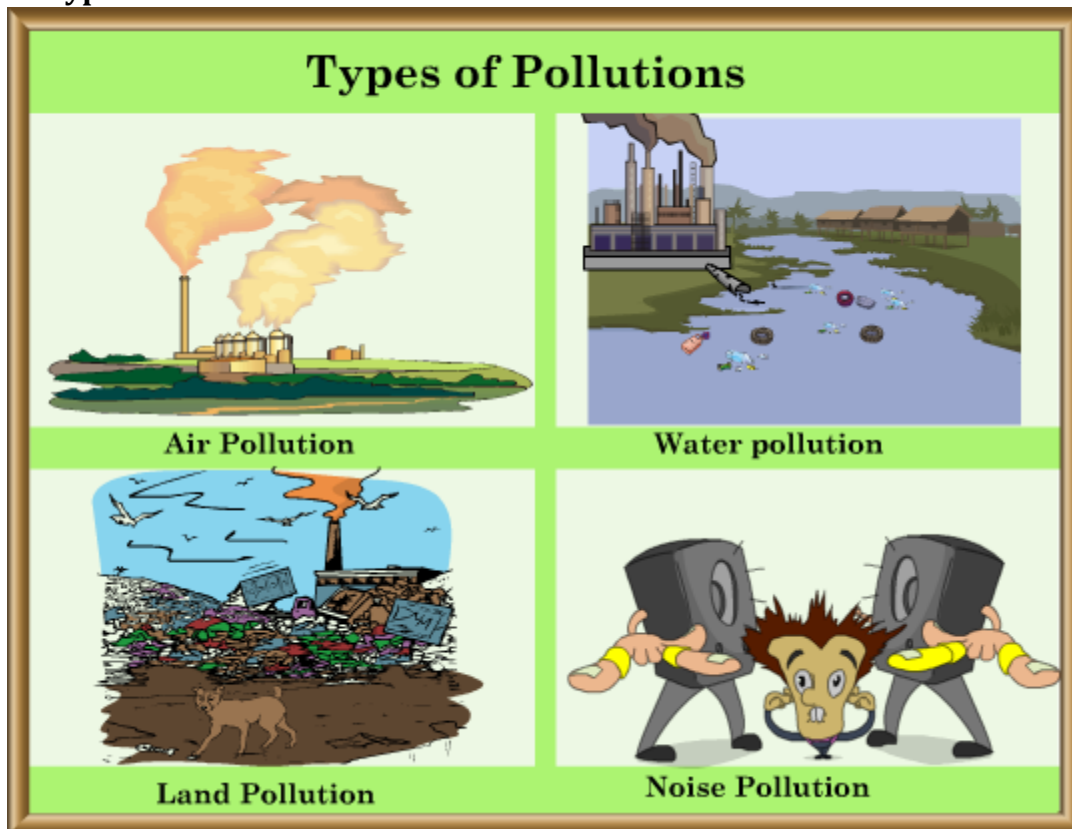
v. Responsibilities towards the suppliers: It is the responsibility of business enterprises to ensure regular payments to their suppliers and safeguard them from any form of exploitation.

❖ Business and Environmental Protection

➤ Environment and Environmental Pollution

Environment refers to the sum total of the surroundings and resources, including both biotic resources (i.e., living creatures such as plants and animals) and abiotic resources (i.e., non-living things such as air, water and land) that affect our existence and our quality of life. However, due to the rapid increase in population and industrialisation, there has been an excessive use of resources (greater than the rate of regeneration); this has resulted in their degradation and depletion. Also, the discharge of harmful substances into the environment has contributed towards pollution. All this has hampered the environment to a large extent.

➤ Types of Pollution



i. Air pollution: It is caused by the emission of harmful gases and chemicals from factories and vehicles into the atmosphere.

ii. Water pollution: Discharge of industrial and household wastes into rivers, streams or lakes causes degradation of the water quality and cause water pollution.

iii. Land pollution: This is caused due to the dumping of toxic material and wastes on land, which in turn damages the quality of land, making it unfit and unproductive for agriculture and crop plantation.

iv. Noise pollution: It is a result of the sound generated from the machinery and other equipment operating in various industries and factories. It causes serious health problems to the workers working in those factories and to the population residing in the adjacent areas.

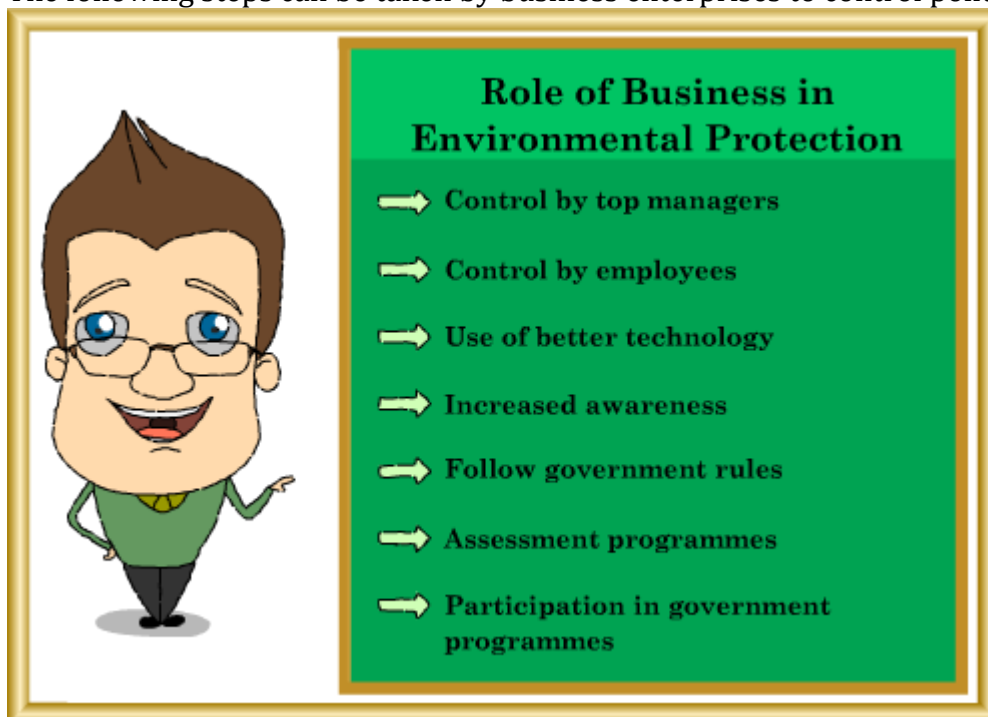
❖ Need for Pollution Control

The following are some of the reasons that justify the need for adoption of pollution control measures.

- i. Reduced health hazards:** Pollutants in the environment cause deadly diseases such as cancer and respiratory problems. Thus, pollution control measures can help reduce the incidences of such diseases and allow people enjoy a good and healthy life.
- ii. Reduced risk of liability:** Enterprises are often held responsible for polluting the environment and are therefore asked to compensate for the same. Adoption of pollution control measures can help reduce the risk of such liabilities on part of business enterprises.
- iii. Cost savings:** Efficient pollution control mechanisms can help enterprises reduce their cost of waste disposal and cost of cleaning up the production plants. This, in turn, can help businesses reduce their overall cost of production.
- iv. Improved public image:** Education has made people more knowledgeable about the environmental problems, and they have started realising the need of protecting the environment. Thus, business enterprises that adopt pollution control measures have a good reputation in the society.
- v. Other social benefits:** Pollution control provides various other benefits such as cleaner surroundings, availability of good quality resources, better quality of life, etc.

❖ Role of Business in Environmental Protection

The following steps can be taken by business enterprises to control pollution:



- i. Control by top managers:** The top management of every organisation should be committed to creating and maintaining a work culture that is conducive to environmental protection.
- ii. Control by employees:** Employees at their individual level should be committed towards keeping the environment clean and protected.
- iii. Better technology:** Enterprises should employ sophisticated and superior technology

for the production and waste disposal. **Government rules:** Business operations must conform to the rules and regulations laid down by the government for the prevention of environmental pollution.

iv. Increased awareness: By conducting workshops and training programmes, business enterprises must make an effort to spread awareness among their employees on the need of conserving the environment.

v. Assessment programmes: An efficient mechanism for the periodic assessment of pollution control programmes may also be adopted to weigh their costs and benefits.

vi. Participation in government programmes: A business should also participate and extend its cooperation to government programmes and initiatives to spread awareness on the management of wastes and hazardous substances, reduction in air pollution, etc.

❖ Business Ethics - Concept

Business ethics refers to the code of conduct that a business must follow, such that it takes up only those activities that are desirable from the viewpoint of overall social welfare. It acts as a guide to managers and other employees in an organisation in performing their jobs in a manner that is socially acceptable.

❖ Elements of Business Ethics



i. Commitment by top management: Top-level officers in an organisation must sincerely follow the ethical code of conduct and guide employees towards adopting the code.

ii. Publication of a 'code': The management in an enterprise must clearly define the ethical code of conduct that needs to be followed. It should include the guidelines regarding the standards for quality work, laws governing production and standards for employee health and safety.

iii. Establishment of compliance mechanism: An enterprise must also devise a suitable mechanism through which it can measure the actions of the employees so as to ensure that

the ethical standards are duly met.

iv. *Involvement of employees at all levels:* The employees, at different levels in the organisation, must be actively involved in the successful implementation of ethical standards as set by the enterprise.

v. *Measurement of results:* Although it is difficult to measure the result after implementing ethical standards, the top management should take steps to monitor the compliance and curb any unethical behaviour.