

Revision Notes

CHAPTER 6

SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

CONCEPT OF SOCIAL, RESPONSIBILITY : A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

Arguments in favour of Social Responsibility:

There is a need for Social Responsibility of business for Existence and Growth:

- 1. Justification for Existence and Growth:** Business is the creation of society therefore it should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.
- 2. Long term Interest of the firm:** A firm can improve its image and builds goodwill in the long run when its highest goal is to serve the society . If it indulges in unfair Trade Practices e.g. adulteration, hoarding, black marketing, it may not be able to exist for long.
- 3. Avoidance of government regulations:** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.
- 4. Availability of resources with business:** Business has valuable financial and human resources which can be effectively used for solving problems of the society.
- 5. Better environment for doing business:** It is the social responsibility of business enterprise to provide better Quality of life and standard of living to people. So, business will get better community to conduct business.
- 6. Contribution to social problems:** Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe work places, discrimination

etc, Therefore, it is the moral obligation of business to solve such social problems.

Arguments Against Social Responsibility

Major arguments against social responsibility are:

1. **Profit Motive** - A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.
2. **Burden on consumers** - Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
3. **Lack of Social Skills** -The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
4. **Lack of public support** - Generally public does not like business involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business has Interaction with several interest groups such a shareholders, workers, consumers, government and community. Business is responsible to all these groups.



1. Responsibility towards shareholders:

- (i) To ensure a fair and regular return on the investment of shareholders.
- (ii) To ensure the safety of their investment
- (iii) To strengthen financial position of the company.

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- (iv) To safeguard the assets of the business.
 - (v) To protect the interest of all types of investors in the business.

2. Responsibility Towards workers:

- (i) Providing fair compensation and benefits,
- (ii) Providing good and safe Working conditions,
- (iii) To develop a sense of belongingness.

3. Responsibility toward consumers:

- (i) To supply right quality of goods & services at reasonable prices.
- (ii) To ensure regular and adequate supply of products.
- (iii) To inform them about new products and new uses of existing products.
- (iv) To handle the customers grievance promptly.

4. Responsibility Towards Government -

- (i) To pay taxes honestly
- (ii) To observe rules laid down by the government,
- (iii) to avoid corrupting government employees.

5. Responsibility towards community -

- (i) To make available opportunities for employment,
- (ii) To avoid polluting the environment,
- (iii) To up lift the weaker sections of society

BUSINESS AND ENVIRONMENTAL PROTECTION:

Meaning of Environment: The environment is defined as the totality of man's surroundings - both natural and man-made. Natural Resources-all land, water, air and man-made - cultural heritage, socio economic institutions and the people.

Meaning of Environmental pollution - It means injection of harmful substances into the environment. The greatest problem that industries and businessmen are creating is that of pollution - which is the result of industrial production. So, protection of environment is must.

Causes of Pollution: Many industrial organizations have been responsible for causing air, water, land and noise pollution.

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1. **Air Pollution** - Due to smoke, chemical emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.
 2. **Water pollution** - Due to chemicals and waste dumped into the rivers, streams & lakes. It has led to the death of several aquatic animals and posed a serious problem to human life.
 3. **Land Pollution** - Due to dumping of garbage and toxic wastes which affect the fertility of land and makes it unfit for agriculture.
 4. **Noise Pollution:** Caused by the running factories and vehicles. Noise pollution can be responsible for many diseases like loss of hearing, violent behaviour and mental disorder.
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NEED FOR POLLUTION CONTROL

1. **To ensure healthy life** - Many diseases like cancer, heart attack and lung complications all caused by pollutants in the environment. Pollution control is must to keep a check on these diseases.
 2. **To ensure safety** - Due to environmental pollution and smoke, the visibility is reducing due to which chances of accidents have been increasing. To reduce the number of accidents there must be a check on pollution.
 3. **Economic Losses:** Pollutants in the environment bringing heavy economic losses for the country, for example Taj Mahal is losing its beauty due to pollution.
 4. **Improved Public Image:** A firm that adopts pollution control measures enjoys a good reputation as a socially responsible enterprise.
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ROLE OF BUSINESS ENVIRONMENTAL PROTECTION:

1. Eco-friendly and clean or low waste technology should be used by industrial organization.
2. Industrial Wastes should be recycled as far as possible.
3. Plant and machinery should be modernized to minimize pollution.
4. The business houses should comply with the laws and regulations enacted for prevention of pollution.
5. Positive steps should be taken to save environment. These include plantation of trees, cleaning of rivers, ponds etc.

BUSINESS ETHICS: Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their job. Example of business ethics are charging fair price from customers, giving fair treatment to workers, earning reasonable profits and paying taxes to the government honestly.

ELEMENTS OF BUSINESS ETHICS

- 1. Top management commitment** - The CEO and higher level managers must be committed to ethical norms of behavior. This would set an example for all employees and encourage them to follow ethical practice.
- 2. Publication of code** - Code of ethics is a formal written document of the principles, values and standards that guide a firm's actions. It may cover areas like honesty, quality, safety, health care etc.
- 3. Establishment of compliance mechanism:** A suitable mechanism should be developed to comply with the ethical standards of the enterprise. The mechanism should be properly communicated to all in the organization.
- 4. Employee involvement:** It is the employees of the lower levels who implement ethical principles so they must be involved in the process of developing ethical code.
- 5. Measuring results:** Although it is difficult to measure the ethical results but it must be verified and audited that the work is being carried according to ethical standards.