

CHAPTER – 6

SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

INTRODUCTION

Every individual living in society has certain obligations towards society. He has to respect social values and norms of behaviour. A business enterprise is permitted by society to carry on industrial or commercial activities and thereby earn profits. But it is obligatory on part of the business enterprise not to do anything that is undesirable from society's point of view.

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 the objectives and values of our society.

CORPORATE SOCIAL RESPONSIBILITY

Corporate sustainability refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental protection.

In India, the concept of CSR is governed by Clause 135 of the Companies Act 2013, which was passed by both the houses of the parliament, and had received the assent of the President of India on 23rd August 2013.

- 1. The new rules, which are applicable from the fiscal year 2014-15 onwards, also require companies to setup a CSR committee consisting of their board members, including at least one independent director.**
- 2. The Act encourages companies to spend at 2% of their average net profit in the previous three years on CSR activities.**

3. The indicative activities, which can be undertaken by a company under CSR, have been specified under Schedule VII of the Act.

4. Only CSR activities undertaken in India will be taken into consideration.

5. Activities meant exclusively for employees and their families will not qualify under CSR.

NEED FOR SOCIAL RESPONSIBILITY

The concept of social responsibility implies that it is essentially an ethical issue, since it involves the question of what is morally right or wrong in relation to the firm's responsibilities.

ARGUMENTS FOR SOCIAL RESPONSIBILITY

(i) Justification for existence and growth: Business exists for providing goods and services to satisfy human needs. In fact, the prosperity and growth of business is possible only through continuous service to society. Thus, assumption of social responsibility by business provides justifications for its existence and growth.

(ii) Long-term interest of the firm: A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society'. The public image of any firm would also be improved when it supports social goals.

(iii) Avoidance of government regulation: From the point of view of a business, government regulations are undesirable because they limit freedom. Therefore, 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.

(iv) Maintenance of society: The argument here is that laws cannot be passed for all possible circumstances. People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law. This may harm the interest of business itself. Therefore, it is desirable that business enterprises should assume social responsibilities.

(v) Availability of resources with business: This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems. It can help society to tackle its problems better, given the huge financial and human resources at its disposal.

(vi) Better environment for doing business: If business is to operate in a society which is full of diverse and complicated problems, it may have little chance of success. A society with fewer problems provides better environment for a firm to conduct its business.

(vii) Holding business responsible for social problems: It is argued that some of the social problems have either been created or perpetuated by business enterprises themselves. Therefore, 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 on their own.

ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

(i) Violation of profit maximisation objective: According to this argument, business exists only for profit maximisation. In fact, business can best fulfill its social responsibility if it maximises profits through increased efficiency and reduced costs.

(ii) Burden on consumers: It is argued that social responsibilities like pollution control and environmental protection are very costly and often require huge financial investments. In such circumstances, businessmen are likely to simply shift this burden of social responsibility by charging higher prices from the consumers instead of bearing it themselves.

(iii) Lack of social skills: All social problems cannot be solved the way business problems are solved. In fact, businessmen do not have the necessary understanding and training to solve social problems.

(iv) Lack of broad public support: Here the argument is that the 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

(i) Threat of public regulation: Democratically elected governments of today are expected to act as welfare states whereby they have to take care of all sections of society. Thus, 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.

(ii) 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. The principle of caveat emptor (or let the buyer beware) has been substituted by the principle of 'customer is king'. Business enterprises have started following customer-oriented policies.

(iii) 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. It is on the basis of social standards that business functioning is to be ultimately judged.

(iv) 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. Educated persons as consumers, investors, employees, or owners have become more sensitive towards social issues than was the case earlier, when such education was not available.

(v) 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.

KINDS OF SOCIAL RESPONSIBILITY

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

(a) 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.

(b) 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.

(c) Ethical responsibility: This includes the behaviour of the firm that is expected by society but not codified in law.

(d) 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.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

(i) Responsibility towards the shareholders or owners: A business enterprise has the responsibility to provide a fair return to the shareholders or owners on their capital investment and to ensure the safety of such investment. They also provide the shareholders with regular, accurate and full information about its working as well as schemes of future growth.

(ii) Responsibility towards the workers: Management of an enterprise is also responsible for providing opportunities to the workers for meaningful work. The worker must also be ensured of a fair wage and a fair deal from the management.

(iii) 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.

(iv) Responsibility towards the government and community: An enterprise must respect the laws of the country and pay taxes regularly and honestly.

BUSINESS AND ENVIRONMENTAL PROTECTION

Protection of the environment is a serious issue that confronts business managers and decision makers. It is widely recognised that the quality of the environment is fast deteriorating particularly due to industrial activity. Their emissions are seriously affecting the health of the people. Pollution — the injection of harmful substances into the environment is, in fact, largely the result of industrial production. Since some waste is inevitable in the use of materials and energy, the manufacturers face a great challenge in minimising the adverse impact of this waste by using proper technologies. Protection of the environment is good for all of us.

CAUSES OF POLLUTION

It must be recognised that all sectors of our society viz., industry, government, agriculture, mining, energy, transportation, construction, and consumers generate waste. Pollution is caused by these pollutants which are released into the environment beyond its assimilation capacity. Business activities such as production, distribution, transport, storage, consumption of goods and services are known to be the most critical sources of environmental pollution problems.

Many business enterprises have been responsible for causing (i) air, (ii) water (iii) land, and (iv) noise pollution.

These types of pollution are discussed as follows:

(i) Air pollution: Air pollution is the result of a combination of factors which lowers the air quality. It is mainly due to carbon monoxide emitted by automobiles which contributes to air pollution.

(ii) Water pollution: Water becomes polluted primarily from chemical and waste dumping. For years, business enterprises have been dumping

waste into rivers, streams and lakes with little regard for the consequences.

(iii) Land pollution: Dumping of toxic wastes on land causes land pollution. This damages the quality of land making it unfit for agriculture or plantation. Restoring the quality of the land that has already been damaged is a big problem.

(iv) Noise pollution: 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.

ENVIRONMENTAL PROBLEMS

- (i) Ozone depletion**
- (ii) Global warming**
- (iii) Solid and hazardous wastes**
- (iv) Water pollution**
- (v) Freshwater quality and quantity**
- (vi) Deforestation**
- (vii) Land degradation**
- (viii) Danger to biological diversity**

NEED FOR POLLUTION CONTROL

Pollution prevention or control is needed to preserve precious environmental resources and to improve the environmental quality so that the preserved resources can be utilised for the benefit of mankind and the improvement of health and well-being of the people. The amount of damage to a particular medium (air, water, land) varies according to the type of pollutant, the amount of pollutant disposed of, and the distance from the source of pollution. Business enterprises cannot remain unaffected by environmental destruction. They need to take suitable measures for pollution control not merely to avoid

criticisms against them but also to enjoy other benefits of such measures.

ROLE OF BUSINESS IN ENVIRONMENTAL PROTECTION

Since the quality of the environment is important for all of us, we have a collective responsibility to protect it from being spoiled. Whether it is government, business enterprises, consumers, workers, or other members of society, each one can do something to stop polluting the environment. Government can enact laws to ban hazardous products. Consumers, workers and the members of society can avoid using certain products and doing things that are not environment friendly. The business enterprises should, however, take the lead in providing their own solutions to environmental problems. It is the social responsibility of every business to take steps not only to check all sorts of pollution but also to protect environmental resources.

Some of the specific steps which can be taken by business enterprises for environmental protection are as stated below:

- (i) Top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.**
- (ii) Ensuring that environmental protection is shared throughout the enterprise by all divisions and employees.**
- (iii) Developing clear-cut policies and programmes for using scientific techniques of disposal and treatment of wastes 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 so as to increase the progress with respect to environmental protection.

BUSINESS ETHICS

Concept of Business Ethics

The word ‘ethics’ has its origin in the Greek word ‘ethics’ meaning character; norms, ideals or morals prevailing in a group or society. Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of a standard form of conduct/ behaviour of individuals, as approved by society in a particular field of activity. Ethics can also refer to codes or other system for controlling means so that they serve human ends.

Elements of Business Ethics

Since ethical business behaviour is good for both the business enterprise and society, it makes sense to discuss how the enterprises can foster ethics in their day-to-day working. Some of the basic elements of business ethics while running a business enterprise are as follows:

(i) Top management commitment: Top management has a crucial role in guiding the entire organisation towards ethically upright behaviour.

(ii) Publication of a ‘Code’: Enterprises with effective ethics programmes do define the principles of conduct for the whole organisation in the form of written documents which is referred to as the “code”.

(iii) 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.

(iv) 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.

(v) Measuring results: Although 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.

GROUND RULES OF ETHICS

The following are some of the universal virtues which every human being should imbibe, develop and practise to be ethical in life:

- (a) Be trustworthy**
- (b) Have respect for others**
- (c) Own responsibility**
- (d) Be fair in dealings**
- (e) Be caring towards the well-being of others**
- (f) Prove to be a good citizen — through civil virtues and duties**