



## Unit 6

### Social Responsibility of Business and Business Ethics

# **Revised CBSE Syllabus for 2021 Examination**

- ❑ Concept of social responsibility
- ❑ Case for social responsibility
- ❑ Responsibility towards owners, investors, consumers, employees, government and community.
- ❑ Role of business in environment protection

# Introduction

Sugan is a young newspaper reporter and has been writing for almost six months on malpractices by business enterprises including such issues as misleading advertisements, supply of adulterated products, poor working conditions, environmental pollution, bribing government officials, and so on. He has started believing that business people tend to do anything to mint money. He happens to take an interview of Mr. Raman Jhunjhunwala, chairman of a leading truck manufacturing company which is known for its fair dealing with customers, employees, investors as well as other social groups. Through this interview, Mani develops the understanding that it is possible for a

business enterprise to be socially responsible and ethically upright and, at the same time, be highly profitable. He then gets busy with studying more about the social responsibility of business and business ethics.

A business enterprise should do business and earn money in ways that fulfill the expectations of the society. 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. Manufacture and sale of adulterated goods,

making deceptive advertisements, not paying taxes which are due, polluting the environment and exploiting workers are some examples of socially undesirable practices which may increase the profit of enterprises but which have adverse effect on society at large. On the other hand, supplying good quality goods, creating healthy working conditions, honestly paying taxes prevention/installing pollution devices in the factory, and sincerely attending to customer complaints are examples of socially desirable practices which improve the image of enterprises and also make them profitable. In fact, it is through socially responsible and ethically upright behaviour that business enterprises can get durable success.

# 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.

The assumption of social responsibilities by business enterprises implies that they respect the aspirations of society and would try their best to contribute to the achievement of these aspirations along with their profit interests.

This idea is in contrast to the common notion that business exists only for maximising profits for its owners.



## Top Tip

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.

## Social Responsibility Towards Different Interest Groups

A business is a socio-economic institution. It has interaction with several interest groups such as shareholders or owners, workers, consumers, government and community, etc. Business is responsible to all these interest groups.

# 1. Responsibility towards the shareholders/ investors/owners

- To pay a fair return on their investment (dividend or interest).
- To ensure the safety of their investment.
- To provide regular, accurate and full information about the working of business as well as schemes of future growth.
- To maximise shareholders' wealth, i.e., increase in market value of shares.

## 2. Responsibility towards the workers/ employees

- To pay fair wages and salaries to the workers and employees.
- To provide right kind of working conditions so that it can win the cooperation of workers.
- To provide service benefits such as medical facilities, education to children, retirement benefits, etc.
- To develop their skills through training and education.
- To respect the democratic rights of the workers to form unions.

### 3. Responsibility towards the consumers

- To supply right quality and quantity of goods and services at reasonable prices.
- To ensure regular and adequate supply of products.
- To avoid unfair trade practices such as adulteration, hoarding, black-marketing, underweighing, misleading advertising, etc.
- To inform them about new products and new uses of the existing products.
- To handle the customers' grievances promptly.

## 4. Responsibility towards the government and community

- To respect the laws of the country.
- To pay taxes regularly and honestly.
- To behave as a good citizen and act according to the well accepted values of the society.
- To protect the natural environment and avoid bad, effluent, smoky chimneys, ugly buildings, dirty working conditions.
- To develop to proper image in society through continuous interaction with various groups of people.

# Case/Arguments for Social Responsibility

## 1. Justification for existence and growth

Business exists for providing goods and services to satisfy human needs. Though, profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of service to the people. 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.*

## 2. Long-term interest of the firm

A firm can earn maximum profits in the long run when it has its highest goal as '*service to society*'. When increasing number of members of society — including workers, consumers, shareholders, government officials, feel that business enterprise is not serving its best interest, they will tend to withdraw their cooperation to the enterprise concerned. Therefore, it is in its own interest if a firm fulfills its social responsibility.

### **3. 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.

#### **4. 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 of the society.

## **5. 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.

## **6. 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. Environmental pollution, unsafe workplaces, corruption in public institutions, and discriminatory practices in employment are some of these problems. 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.

## Extra Shots

### **Corporate Social Responsibility (CSR)**

The European Commission defines CSR as “the responsibility of enterprises for their impacts on society”.

The World Business Council for Sustainable Development defines CSR as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families, as well as, of the community and society at large”.

The United Nations Industrial Development Organisation defines ‘Corporate social responsibility’ as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

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 23 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of `1,000 crore and more, or a net worth of `500 crore and more, or a net profit of ` 5 crore and more.

- 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.
- The Act encourages companies to spend at 2% of their average net profit in the previous three years on CSR activities.
- Only CSR activities undertaken in India will be taken into consideration.
- Activities meant exclusively for employees and their families will not qualify under CSR.

# 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. Business enterprises are leading creators of wealth, employment, trade and technology. They also command huge financial, physical and human resources. In most cases, a modification or change in the process of production, redesign of equipment, substituting poor quality materials with better ones or other innovative approaches could greatly reduce or even eliminate pollution entirely.

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

1. A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.
2. Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.
3. 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.
4. Complying with the laws and regulations enacted by the Government for prevention of pollution.
  5. Participation in government programmes relating to management of hazardous substances, clearing up of polluted rivers, plantation of trees, and checking deforestation.
  6. Periodical assessment of pollution control programmes in terms of costs and benefits so as to increase the progress with respect to environmental protection.
  7. 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.



## **Social Responsibility**

Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

### **Case for Social Responsibility**

1. Justification for existence and growth
2. Long-term interest of the firm
3. Avoidance of government regulations
4. Availability of resources with business
5. Better environment for doing business
6. Holding business responsible for social problems.

### **Social Responsibility towards Different Interest Groups**

**1. Responsibility towards the shareholders/ investors/ owners**

- To pay a fair return on their investment
- To ensure the safety of their investment, etc.

**2. Responsibility towards the workers/employees**

- To pay fair wages and salaries to the workers and employees
- To provide good working conditions and service benefits such as medical facilities.

**3. Responsibility towards the consumers**

- To supply right quality and quantity of goods and services at reasonable prices
- To avoid unfair trade practices such as adulteration, hoarding, black marketing, under weighing, etc.

**4. Responsibility towards the government**

- To respect the laws of the country

- To pay taxes regularly and honestly.

## **5. Responsibility towards the community**

- Not to create pollution
- To provide basic amenities like schools, dispensaries, etc.

## **Role of Business on Environmental Protection**

1. A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.
2. Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.
3. 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.

4. Complying with the laws and regulations enacted by the Government for prevention of pollution.
5. Participation in government programmes relating to management of hazardous substances, clearing up of polluted rivers, plantation of trees, and checking deforestation.
6. 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.

# Objective Type Questions

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## Question 1

Social responsibility is:

*(Choose the correct alternative)*

- (a) Same as legal responsibility
- (b) Narrower than legal responsibility
- (c) Broader than legal responsibility
- (d) None of these

# Answer 1

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(c) Broader than legal responsibility



## Question 2

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If business is to operate in a society which is full of diverse and complicated problems, it may have”:

*(Choose the correct alternative)*

- (a) Little chance of success
- (b) Great chance of success
- (c) Little chance of failure
- (d) No relation with success



## Answer 2

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(a) Little chance of success



## Question 3

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Business people have the skills to solve

*(Choose the correct alternative)*

- (a) All social problems
- (b) Some social problems
- (c) No social problems
- (d) All economic problems

# Answer 3

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(b) Some social problems



## Question 4

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That an enterprise must behave as a good citizen is an example of its responsibility towards:

*(Choose the correct alternative)*

- (a) Owners
- (b) Workers
- (c) Consumers
- (d) Community

# Answer 4

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(d) Community



## Question 5

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Environmental protection can best be done by the efforts of:

*(Choose the correct alternative)*

- (a) Business people
- (b) Government
- (c) Scientists
- (d) All of these



# Answer 5

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(d) All of these



## Question 6

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Providing accurate and up-to-date information on the financial position of the company is a responsibility of business towards:

*(Choose the correct alternative)*

- (a) shareholders or owners
- (b) workers
- (c) consumers
- (d) government and community

# Answer 6

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(a) shareholders or owners



## Question 7

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Protection of environment is a social responsibility of business towards:

*(Choose the correct alternative)*

- (a) shareholder or owners
- (b) workers
- (c) consumers
- (d) government and community



# Answer 7

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(d) government and community



# Question 8

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Match the columns:

Column I	Column II
(i) To develop employees' skills through training and education	(a) Government
((ii) To avoid unfair trade practices such as under-weighting, poor quality of goods and services, misleading advertising, etc.	(b) Workers
(iii) To pay taxes regularly and honestly	(c) Consumers

# Answer 8

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(i) — (b), (ii) — (c), (iii) — (a)



## Question 9

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The only obligation of a business towards its employees is to pay them well so that they work to their maximum capacity.

*True/False? Give reason.*



## Answer 9

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**False:** A business also provides services benefits such as medical facilities, education to children, etc. It should also provide good working conditions for the employees.



## Question 10

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Legal responsibility means compliance with the law.

*True/False? Give reason.*



## Answer 10

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**True:** Every business enterprise must respect and operate within the laws of the country, e.g., payment of taxes regularly and honestly, not to create pollution, etc.



## Question 11

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What is good for the society is also good for the business.

*True/False? Give reason.*



# Answer 11

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**True:** Business is a part of the society. If a business firm voluntarily helps in solving society's problems such as poverty, unemployment, illiteracy, etc., it gets better environment to conduct its business. The prosperity and growth of a business is possible only through continuous service to society.



# Case Studies

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## Question 1

Mr. Debashish is the owner of readymade garments factory. His main motive is maximising the profit. For this he is charging high prices from the customers while supplying low quality products. He does not provide good working conditions to the workers, and does not pay them reasonable remunerations. Even he did not bother about the pollution caused by his factory. As a result, the efficient employees started leaving the organisation. The government put a heavy penalty for causing pollution,

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and even the number customers gradually decreased day-by-day.

- (a) What do think what is lacking by Mr. Debashish?
- (b) What should be done to resolve the situation/ problem?

(6 marks)

# Answer 1

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- (a) Mr. Debashish is not fulfilling his social responsibility towards various interest groups for the sake of maximising the profits.
- (b) He should fulfill his responsibility towards various interest groups.

## Responsibility towards the workers

- To pay fair wages and salaries to the workers and employees.
- To provide good working conditions.

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## Responsibility towards the consumers

- To supply right quality of goods and services at reasonable prices.
- To avoid unfair trade practices such as adulteration, hoarding, black-marketing, under-weighting, poor quality of goods and services, misleading advertising, etc.

## Responsibility towards the community

- To protect the natural environment and avoid bad, effluent, smoky chimneys, dirty working conditions.
- To generate more employment opportunities.

## Question 2

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Ajay Medicos is a partnership firm. Akku and Mona are two partners in this firm. It sells medicines to the other business units only. Almost all the transactions of this firm are done through the electronic medium, i.e., the internet. Akku wants to set up the anti-pollution plant in his factory, but Mona does not want.

Identify and explain the unethical behaviour of the firm from the above case.

(4 marks)



## Answer 2

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Mona's intention of not installing the anti-pollution plant contributes to the unethical behaviour of the firm because it will cause environment pollution.

It is the social responsibility of every business to take steps not only to check all sorts of pollution. A business enterprise can take following steps to protect the environment from the dangers of pollution:

- (i) Top management of the enterprise should be committed to create, maintain and develop work culture for environmental protection and pollution prevention.

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- (ii) Clear-cut policies should be framed for employing superior technology, using scientific techniques of disposal of wastes, etc.
  - (iii) The enterprise should participate in government programmes relating to management of hazardous substances, plantation of trees, checking deforestation, etc.