

CHAPTER - 6

SOCIAL RESPONSIBILITY OF BUSINESS AND BUSINESS ETHICS

Social responsibility is the obligation of a business to make those decisions and perform those actions which are desirable in terms of the objectives and values of our society.

Arguments for Social Responsibility

Major arguments in favour of social responsibility include the following:

1. Justification for Existence and Growth

The prosperity and growth of the business are possible only through continuous service to society. So, the assumption of social responsibility is necessary for its existence and growth.

2. Long-term Interest of the Firm

When members of society ie, workers, consumers, government, etc. feel that business enterprise is not serving their interest, they will withdraw their co-operation to the enterprise. So, it is in the interest of business to assume social responsibility.

3. Avoidance of Government Regulation

Government regulations are undesirable because they limit freedom. The businessman can avoid the problem of government regulation by voluntarily assuming social responsibility.

4. Maintenance of Society

People who feel that they are not getting their due from the business may resort to anti-social activities. So, it is desirable that business assumes social responsibility.

5. Availability of Resources with Business

Business enterprises have valuable financial and human resources. These can be effectively used for solving social problems.

6. Better Environment for doing Business

If the business is to operate in a society that is full of complicated problems, it may have little chance of success. A society with fewer problems provides a better environment for a firm to conduct its business.

7. Holding Business Responsible for Social Problems

It is argued that some of the social problems are created by business firms such as environmental pollution, unsafe workplace, etc. So, it is the moral obligation of business to solve these problems.

Arguments against Social Responsibility

Major arguments against social responsibility are:

1. Violation of Profit Maximisation Objective

According to this argument, business exists only for profit maximisation. So, any talk of social responsibility is against this objective.

2. Burden on Consumers

Social responsibilities like pollution control and environmental protection are very costly. In such circumstances, businessmen are likely to shift their burden to consumers by charging higher prices from them.

3. Lack of Social Skills

Businessman does not have the necessary understanding and training to solve social problems. Therefore, social problems should be solved by other specialized agencies.

4. Lack of Broad Public Support

The public, in general, doesn't like business involvement in solving social problems.

The reality of Social Responsibility/ Reasons for Social Responsibility

Following are the main factors that are forced businessmen to follow social responsibility:

1. Threat of Public Regulation

When business firms function in a socially irresponsible manner, action is taken to regulate them. This threat of public regulation compels business enterprises to assume social responsibility.

2. Pressure of Labour Movement

Labour has become far more educated and organised. This has forced business firms to pay due consideration to the welfare of workers.

3. Impact of Consumer Consciousness

Developments in education and mass media have made consumers aware of their rights and powers. This forced business enterprises to follow customer-oriented policies.

4. Development of Social Standard for Business

No business can be done in isolation from society. It is the society that permits businesses to exist and grow.

5. Relationship between Social Interest and Business Interest

Social interest and business interest are not contradictory. A business can achieve long-term benefit only through serving the society as well.

Kinds of Social Responsibility

Social responsibility of business can broadly be divided into four categories:

1. Economic Responsibility

A business enterprise is basically an economic entity and therefore, its primary social responsibility is economic. That is, produce goods and services that society wants and sell them at a profit.

2. Legal responsibility

Every business has a responsibility to operate within the laws of the land. A law-abiding enterprise is a socially responsible enterprise as well.

3. Ethical Responsibility

This includes the behaviour of the firm that is expected by society but not codified in law. Eg: following fair trade practices, providing quality goods to consumers, etc.

4. Discretionary Responsibility

It refers to a purely voluntary obligation that an organisation assumes. Eg: providing charity to educational

institutions, helping affected people during floods or earthquakes.

Following are the different stakeholders towards which the business is having social responsibilities:

1. Responsibility towards Shareholders or Owners

A business enterprise has the responsibility to provide a fair return to the shareholders or owners on their investment and to ensure the safety of their investment. It should also give accurate and full information about its working to the owners.

2. Responsibility towards the Workers

A business enterprise should create good working conditions in the working place, give good wages to the workers, respect the democratic rights of the workers to form unions, etc.

3. Responsibility towards the Consumers

A business enterprise should supply the right quantity and quality goods and services to consumers at reasonable prices. It should not indulge in adulteration, misleading advertisement, providing poor quality goods, etc.

4. Responsibility towards the Government and Community

A business enterprise must respect the laws of the country and pay taxes regularly and honestly. It must protect the environment and avoid dirty working conditions.

Business and Environmental Protection

Environment is defined as the totality of man's surroundings- both natural and man-made. The activities of business cause environmental pollution. Pollution means the injection of harmful substances into the environment. Pollution harms human life and the life of other species.

Causes of Pollution/ Types of Pollution

The different causes of pollution include the following:

1. Air Pollution

It is mainly due to carbon monoxide emitted by automobiles. Similarly, smoke and other chemicals from manufacturing plants also pollute the air. Air pollution lowers the quality of air.

2. Water Pollution

Water becomes polluted from chemicals and waste dumping. It leads to the death of several animals and poses a serious threat to human life.

3. Land Pollution

Dumping of toxic wastes on land causes land pollution. This damages the quality of land and makes it unfit for agriculture.

4. Noise Pollution

Noise caused by the running of factories and vehicles is also a serious health hazard. Noise pollution is responsible for many diseases like loss of hearing, malfunctioning of the heart, and mental disorders.

Need for pollution control

Business firms should take steps to control pollution due to the following reasons:

1. Reduction of Health Hazards

Many diseases like cancer, heart attacks, lung complications, etc are caused by pollution. Pollution control measures can check the seriousness of such diseases.

2. Reduced Risk of Liability

An enterprise is liable to pay compensation to people affected by pollution. So, it is better to install pollution control devices to reduce the risk of liability.

3. Improved Public Image

A firm's policies and practices for controlling pollution will influence people's attitude towards its working. Such firms will be perceived as a socially responsible firm.

4. Other social benefits

Pollution control results in many other benefits like cleaner buildings, clearer visibility, availability of natural products in a purer form, etc.

Role of Business in Environmental Protection

Steps taken by business enterprises for environmental protection are as follows:

- a) A definite commitment by top management to create a work culture for the prevention of pollution.
- b) Developing clear-cut policies and programmes for purchasing good quality raw materials, using scientific techniques for disposal of wastes, etc.
- c) Complying with the laws enacted by the Government for the prevention of pollution.
- d) Participation in Government programmes relating to cleaning up polluted rivers, plantation of trees, checking deforestation, etc.
- e) Arranging seminars and training for suppliers and customers to share technical information with them and to get them actively engaged in pollution control programmes.

f) Periodical assessment of pollution control programmes in terms of costs and benefits.

g) Arranging educational workshops and other pollution control programmes as well as preparing training materials related to pollution control.

Business Ethics

Business ethics refer to the moral principles to be followed by businessmen in relation to society. It is voluntary and refers to fair dealings with consumers, workers, suppliers, competitors, government, and society. Ethical business is good business. Ethical business behaviour improves the public image of the business.

Examples of ethical business practices

Fair and reasonable price for goods and services, fair treatment to employees, sale of good quality products to consumers, correct weights and measures, make reasonable profits, etc.

Examples of unethical business practices

Inferior quality goods and services, adulteration, black marketing and hoarding, misleading advertisement, exploitation of workers, etc.

Elements of Business Ethics

Some of the basic elements of business ethics are as follows:

1. Top Management Commitment

Top management should be strongly committed to ethical conduct. They must provide leadership for upholding the values of the organisation.

2. Publication of a 'Code'

This covers areas such as honesty and adherence to laws, product safety and quality, health and safety in the workplace, fairness in selling practices, etc.

3. Establishment of Compliance Mechanism

To ensure that actual decisions and actions comply with the firm's ethical standards, suitable mechanisms should be established. Example: Establish a communication system to help employees to report unethical behaviour.

4. Involving Employees at all Levels

It is the employees who implement ethics policies to make business ethics a reality. So, their involvement in ethics programmes is a must.