

## CHAPTER 6

### *Social Responsibilities of Business and Business Ethics*

#### VERY SHORT ANSWER TYPE QUESTIONS :

**1. What do you understand by the social responsibility of business? How is it different from legal responsibility?**

**Solution:** It implies the duties and set of responsibilities that a business organisation has towards society and its members. It also insists the enterprise must conduct various activities which are beneficial for society. Business always makes use of the resources of society, and hence, it is a part of their responsibility to give something back by working for the improvement of society.

Social responsibility is different from legal responsibility because by abiding only by the laws, legal responsibilities can be taken care of, while social responsibilities are more concerned with doing better for society, as in generating employment for the poor, those who are physically challenged and employment opportunities for women.

**2. What is the environment? What is environmental pollution?**

**Solution:** The environment comprises the biotic and abiotic resources that are present in and around us. It impacts our quality of life. But with rapid growth in the human population, coupled with industrialisation, resources have been used, resulting in their depletion or degradation. Also, harmful discharge into the environment has resulted in polluting the area.

There are 4 types of pollution

1. Water pollution is caused by industrial waste after getting discharged from the pipe.
2. The dumping of toxic wastes in the ground causes land pollution and also makes the land unfit for any kind of agricultural activities.
3. Noise pollution is caused by vehicles and factories, causing health problems such as hearing loss and mental disorders.
4. Air pollution is caused by the burning of waste materials and exhaust fumes from vehicles that release harmful gases into the atmosphere.

### 3. What is business ethics? Mention the basic elements of business ethics.

**Solution:** Business ethics deals with values and principles governing the behaviour of an individual or an organisation and business activities that are considered likeable from society's viewpoint. It helps managers and other employees in performing their duties in a manner which is found to be socially acceptable.

Some elements of business ethics are

1. Commitment from Top Management.
2. Formation of a "code".
3. Establishing a compliance mechanism.
4. Involving employees at all levels.
5. Measuring results.

### 4. Briefly explain (a) Air pollution (b) Water pollution and (c) Land pollution.

**Solution:** 1. Air Pollution is caused by the burning of waste materials and exhaust fumes from vehicles that release harmful gases into the atmosphere.

2. Water pollution is caused by industrial waste after getting discharged from pipes.

3. The dumping of toxic wastes in the ground causes land pollution and also makes the land unfit for any kind of agricultural activities.

### 5. What are the major areas of social responsibility of business?

**Solution:**

The major areas of social responsibility include

1. Economic responsibility: Business enterprise operates with the sole purpose of earning profits. Hence, a business must undertake activities for producing goods and services as per customer needs and sell them at reasonable prices.
2. Legal Responsibility: It is part of a firm's responsibility to abide by the laws and regulations of the country of operation.
3. Ethical responsibility: It implies that any business enterprise must follow business practices that are ethical and just from society's viewpoint

4. **Discretionary Responsibility:** This type of responsibility is voluntary in nature, it depends on the discretion of the organisation to start a hospital, provide scholarships to needy people or provide food to people facing food shortage due to any natural calamity.

#### **6. State the meaning of Corporate Social Responsibility as per the Companies Act 2013.**

Corporate social responsibility is the role that companies need to perform so as to meet the objective of social development and follow a balanced approach towards economic progress, social progress and environmental protection.

CSR is governed by clause 135 in the Companies Act and is applicable to companies that have

1. Annual turnover amounting to Rs.1000 crore
2. Net worth amounting to Rs.500 crore
3. Net profit of Rs.5 crore

The activities that fall under schedule VII are related to hunger and poverty eradication, removing gender inequality, and creating a sustainable environment.

#### **LONG ANSWER TYPE QUESTIONS:**

##### **1. Build arguments for and against social responsibilities?**

##### **Solution:**

##### **For Social Responsibility**

1. **Growth and Existence:** A business looks towards gaining profits by providing goods and services to customers. So for long-term growth, a business depends not only on profits but also on how they serve society. So an organisation takes up social responsibility activities, and it completely justifies its existence and supports its growth.
2. **Interest of the firm in the long-term:** If a business is seen as not socially responsible by the stakeholders, then the support for such an organisation reduces.
3. **Avoiding Government Regulation:** Businesses can avoid being regulated by the government by adopting social responsibility practices.
4. **Create a better environment for business:** A business cannot conduct its operations if the environment in which it operates is not conducive for business. So adopting social responsibility helps stabilise the environment and provides a good environment to do business.

**Against social responsibility:**

1. Business is started with the purpose of profit maximisation if the organisation is busy working for social causes. It may not become profitable, as it will lack the essential resource necessary to earn the profit.
2. Environmental problems like pollution involve a high cost, which will translate to the higher cost being charged to customers by the organisations.
3. The general public is reluctant to let businesses contribute to solving social issues, and hence, businesses have been seen to be not quite successful in addressing such issues.

**2. Discuss the forces which are responsible for increasing concern of business enterprises towards social responsibility?**

**Solution:** 1. Labour movement pressure: Labours are more educated and know their rights well; hence, it is essential for businesses to provide benefits, good working conditions and better remuneration for taking care of the welfare of the workers.

2. Consumer Consciousness: Consumers have become more conscious of their rights, and thus, companies need to prepare products that are cost-efficient.

3. Threat of Public regulation: If the company is not working in the direction of benefit of society, then the government may step in to safeguard the interests of the society.

4. Development of business education: There is a need for consumers, investors and employees to become more aware of the social issues around them.

5. Developing Social standards: Companies cannot only be profit-making entities but also need to look towards serving social needs for growth and existence; for this, they need to fulfil some activities of social welfare

**3. 'Business is essentially a social institution and not merely a profit-making activity.' Explain?**

**Solution:** A business has the primary motive of profit maximisation. But business organisations are not purely profit-making concerns, as they are created by society to fulfil the requirements of goods. Every business utilises resources of society and human resources. So a business is also impacted by problems in society, such as poverty and unemployment. Activities such as creating jobs and healthy working conditions, paying taxes, preventing pollution and addressing complaints from customers are some examples of socially desirable practices that improve the image of society. Here are some examples which show business as a social institution.

1. A business has to provide fair returns to the shareholders or owners on the capital they invested and ensure the safety of such an investment.
2. Provide meaningful opportunities for workers along with fair wages for the work.
3. Producing and supplying good quality goods, along with the right quantity and customer service at reasonable prices, ensures that the business is a social institution.
4. By paying taxes on time, a business respects the rules of society and hence, makes it a social institution.

#### **4. Why do business enterprises need to adopt pollution control measures?**

**Solution:** The need of adopting pollution control measures by a business enterprise is necessary for the following reasons:

1. Pollutants present in the environment cause many complications, like respiratory disorders, cancer and damage to kidneys and lungs. Reducing or keeping a check on the pollutants will ensure a healthy life on earth.
2. Organisations can implement pollution control devices on their premises in order to stop the damage that is caused by gases and solid wastes.
3. Using outdated production technology results in the generation of excessive amounts of waste, which can cause damage to the environment and people. Therefore, new, cleaner technology should be adopted.
4. An organisation having proper pollution control measures at its disposal is trusted as a socially responsible enterprise.
5. Effective pollution control mechanisms also reduce the operating cost of a business while making the environment clean.

#### **5. What steps can an enterprise take to protect the environment from the dangers of pollution?**

**Solution:**

The following steps can protect the environment from damage caused by pollution:

1. The top management needs to have a definite commitment to create, maintain and develop a work culture for environmental protection.

2. Employees at all levels should work towards keeping the environment clean.
3. By conducting workshops, the business organisation needs to spread awareness of pollution.
4. Businesses must respect and abide by the rules set up by the government in order to combat pollution scenarios.

## **6. Explain the various elements of business ethics ?**

### **Solution:**

Elements of business ethics are as follows:

1. Top-level managers or CEO of a firm should diligently follow the ethical code of conduct and guide others in following them.
2. The code of conduct must be preserved in the form of written documents known as code which contains laws dealing with safety in the workplace, health, quality, etc.
3. Suitable compliance mechanisms should be placed, which ensure that decisions and the corresponding actions comply with the firm's ethical standards.
4. Employees should be involved in all levels of ethics programmes, as they are the ones who implement ethical policies.
5. The firm must monitor whether the ethics programmes comply with ethical standards and measure the end results of the ethics programmes and check if any course of action should be taken.

## **7. Discuss the guidelines enumerated by the Companies Act 2013 for Corporate Social Responsibility?**

**Solution:** Corporate social responsibility is the role that companies need to perform so as to meet the objective of social development and follow a balanced approach towards economic progress, social progress and environmental protection.

CSR is governed by clause 135 in the Companies Act and is applicable to companies that have:

1. Annual turnover amounting to Rs.1000 crore
2. Net worth amounting to Rs.500 crore
3. Net profit of Rs.5 crore

The CSR guidelines are as follows:

1. Companies should set up a committee for Corporate Social Responsibility that consists of 3 or more board members of the company; one of them should be an independent director.
2. It also encourages companies to spend 2% of their net profit from the previous three years towards CSR activities.
3. The CSR activities that can be undertaken by a company should be as mentioned under Schedule VII of the act.
4. Only those CSR activities that have been undertaken in India will be considered.
5. Activities meant exclusively for employees should not qualify as CSR.