Social Responsibilities of Business

- Social responsibility is a doctrine that claims that an entity whether it is state, government, corporation, organisation or individual, has a responsibility to society
- Meaning of Social Responsibility:Adolph Berle has defined social responsibility as the manager‟s responsiveness to public consensus

- These would be determined and would vary from case to case according to the customs, religions, traditions, level of industrialization and a host of other norms and standards about which there is a public consensus at any given time in a given society.

- According to Keith Davis, the term social responsibility refers to two types of business obligations:
- The socio-economic obligation: . Business should be carried out in such a manner that it becomes a profitable venture for everyone from the employees, investors, consumers, to the government and the general public.
- The socio-human obligation:
- The socio-human obligation of every business is to nurture and develop human values (such as morale, cooperation, motivation and self-realization in work

- The businessman should, therefore, consider the impact of his actions on all to which he is related
- His task is to mediate among these interests, to ensure that each gets a square deal and that nobody‟s interests are unduly sacrificed to those of others.

Definition of Social Responsibility

- "Social responsibilities refer to the businessman‟s decisions and actions taken to reasons at least partially beyond the firm‟s direct economic or technical interest."

- "By social responsibility, we mean the intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable and leads in the direction of positive contributions to human betterment, variously as the latter may be defined."

The Interested Groups

- Normally various groups associated with a business organisation are shareholders, workers, customers, creditors, suppliers, government and society in general.
- The management owes responsibility towards all these groups.
- Therefore, the management should show a standardised norm of behaviour.
- However, the standard norm of behaviour may not be universal.

- Share Holders
- The first responsibility of management is to protect the interest of shareholders.
- The interests of majority of shareholders and large minority of shareholders are generally well protected through either direct participation in the management actions or they have real power to intervene, if necessary.
- However, large numbers of minority shareholders are not in such a position. Therefore, management is expected to use the resources provided by them effectively and to protect their interests.
- They should be informed about the functioning of the organisation adequately and timely.
- Though the provisions of the Companies Act provide safeguard to the investment made by shareholders, whether minority or otherwise, management can find loopholes in these. Therefore, management has a responsibility to provide proper safeguard to the money invested by

- **Workers:** Workers have a direct interest in an organisation because by working there, they satisfy their needs.
- The traditional economic concept of organisational functioning does not give workers their proper share in the distribution of income.
- The owners and managers have too much power under the economic state of affairs.
- Thus, it is the management‟s responsibility to protect the interest of workers in the organisation.
- The management should treat workers as another wheel of the cart.
- The management should develop administrative process in such a way that promotes cooperative endeavour between employers and employees.
- The management should adopt a liberal labour policy based on recognition of genuine trade union rights- involvement of workers in management, creating a sense of belongingness, improving their work and living conditions.

- The management should pay fair and reasonable wages and provide other financial benefits to workers from time to time.
- **Customers:** A customer may broadly be defined as a person who has a favourable impression of a company and its products and services.
- Thus, a person may be categorised as customer even though he may not have committed the act of buying; he may be only a potential customer. Management owes a primary obligation to give a fair deal to customers.
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- Customers should be charged a fair and reasonable price.
- The supply of goods and services should be of uniform standard and of reasonable quality.
- The distribution of goods and services should be widespread so that customers do not face any problems in procuring them.
- Management should not indulge in profiteering, hoarding or creating artificial scarcity.
- Management should not lure customers by false, misleading and exaggerated advertisements

- Creditors, Suppliers and Others Creditors, suppliers and other groups affect the organisation in numerous ways.
- Therefore, the management is accountable to them and must fulfil its obli gations.
- This can be done in the following ways:
- 1. Management should create healthy and cooperative inter-business relationship between different businesses.
- 2. Management should provide accurate and relevant information to creditors and suppliers.
- 3.Payments of price of materials, interest on borrowings, other charges should be prompt.

- **Government:** The Government is very closely related with the business system of the country.
- It provides various facilities for the development of business.
- No doubt, the government exercises controls over business, but these controls are meant for overall development of business.
- The management can discharge its obligation to government in the following ways:
- 1.The Management should be law-abiding.
- 2. The management should pay taxes and other dues fully, timely and honestly.
- 3.It should not corrupt public servants and democratic process. It should not buy political favour by any means.

- **Society**: Organisations exist within a social structure and get amenities from the system. Therefore, they owe responsibility to the society as a whole.
- It is the obligation of management to protect the interest of society because management process is determining the life in the society.
- In this context, management should have in the following ways.
- 1. Management should maintain reasonable business policies and practices.
- 2.It should set up socially desirable standards of living and avoid ostentation and wasteful expenditure.
- 3. It should play proper role in civic affairs.
- 4.It should provide and promote general amenities and help in creating better living conditions in general.

- Social audits, also called social compliance audits, are an assessment of an organisation’s social and ethical practices and performance.
- This includes areas such as employment practices, workers’ conditions and a company’s impact on the communities where they operate.

- **This involves evaluating how well a business or individual facility adheres to ethical standards – such as those outlined in:**

- Relevant labour and ethical laws
- Related international standards and best practice, such as those from the International Labour Organization
- A business’s own stated sustainability goals

- Many of the best Indian Institutions in several fields such as Tata Institute of Fundamental Research, The Birla Institute of Technology, J. K. Institute of Sociology and Human Relations, Shri Modi Eye Hospital and Ophthalmic Research, Dr. B.P. Godrej Centre, AMM Murugappa Chetiar Research Centre, Shri Ram Collage of Commerce and many others.
- Business depends upon the society for its input resources such as manpower materials and natural resources like water, air and light.
- Business also needs society to buy goods and its production and provide money.
- In short, the business thrives on society for its very survival, sustenance and encouragement.

- Social audits involve trained auditors reviewing a business or worksite’s policies, processes, practices and conditions. Ideally, these auditors are from an independent assessment company.

- The process typically includes an auditor gathering information from various sources, including their own observations, employees’ feedback and business documents to examine a business’s compliance with relevant laws and regulations.

Type of Audit	Merits	Demerits
Internal Audit	- Provides continuous monitoring of financial and operational processes. - Helps identify risks and inefficiencies before external scrutiny. - More cost-effective compared to external audits. - Ensures compliance with internal policies and regulations. - Improves overall management control and decision-making.	- May lack objectivity since auditors are part of the organization. - Findings might be influenced by internal pressures or conflicts of interest. - Limited credibility compared to external audits. - May not always detect major frauds or external risks.
External Audit	- Provides independent and unbiased assessment. - Enhances stakeholder confidence, especially for investors and regulatory bodies. - Helps detect major frauds and	- More expensive compared to internal audits. - Limited frequency, usually conducted annually. - External auditors might not fully understand the

- **What Is Business Ethics?**
- Business ethics is the moral principles, policies, and values that govern the way companies and individuals engage in business activity.

- It goes beyond legal requirements to establish a code of conduct that drives employee behavior at all levels and helps build trust between a business and its customers.

Business Ethics

['biz-nəs 'e-thiks]

The moral principles, policies, and values that govern the way businesses and individuals engage in business activity.

Investopedia

- Over the years, stakeholders have become generally more aware and this has forced organizations to follow ethical business practices.
- Organizations have realized that today, stakeholders are concerned about financial irregularities, tax evasion, poor quality products and services, kickbacks, non-compliance with environmental issues, and hazardous working conditions.
- They have come to understand that integrity, transparency, and open communication are the norms of modern-day business

- The word 'ethics' is derived from the Latin word 'ethics' and the Greek word 'ethikos'. Meaning character or manners.

- Ethics deals with human conduct that is voluntary and not forced by any
- person/s or circumstances

- Business is a primary economic institution through which people carry on the task of producing and distributing goods and services. Business ethics refers to the application of ethical judgments to business activities.
- Broadly, it is concerned with what is right or wrong at the workplace. Some philosophers have defined business ethics as ‘the normative study of moral standards as they apply to business policies, institutions, and human behavior, while others regard it as an ‘ethical analysis of business practices.

- As businesses are run by people, they too should be able to distinguish between right and wrong decisions. Thus, businesses have choices or alternatives like whether to maximize profits, increase sales volume, provide employee benefits, or have concern for society.

- Infosys, Wipro, and Tata Steel have made it to the list of the World's Most Ethical Companies for the year 2021.
- The list, compiled by Ethisphere Institute, a global leader in defining and measuring corporate ethical standards, recognizes companies that have a positive impact on society.

- The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility.
- **Principles of Business Ethics**
- **Accountability:** Holding yourself and others responsible for their actions.
- **Integrity:** consistently does the right thing and strives to hold themselves to a higher standard
- **Respect for others:** Everyone deserves dignity, privacy, equality, opportunity, compassion, and empathy.
- **Honesty**: Truth in all matters is key to fostering an ethical climate.
- **Respect for laws**: Ethical leadership should include enforcing all local, state, and federal laws.

- **Responsibility**: Promote ownership within an organization
- **Transparency**: Operating in a way that actions, decisions, and processes are open to scrutiny
- **Compassion:** Employees, the community surrounding a business, business partners, and customers should all be treated with concern for their well-being.
- **Fairness:** Everyone should have the same opportunities and be treated the same.
- **Loyalty:** ensures that they are committed to best practices.
- **Environmental concern**: climate is changing, it is of utmost importance to be aware of and concerned about the environmental impacts a business has.

Corporate governance

- Corporate governance is the system of rules and practices that guide a company's operations and relationships with its stakeholders.
- It's a way to ensure that a company is run responsibly and in the best interests of its shareholders and other stakeholders
- Corporate governance is **the system by which companies are directed and controlled**.
- Boards of directors are responsible for the governance of their companies.
- The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

- The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.
- **Benefits of Corporate Governance**

- Build trust with investors, the community, and public officials
- Give investors and other stakeholders a clear idea of a company's direction and business integrity
- Promote long-term financial viability, opportunity, and returns
- Facilitate the raising of capital
- Contribute to rising share prices
- Improve a company's reputation and customer retention
- Reduce the potential for financial loss, waste, risks, and corruption

- Examples of Good Corporate Governance:

- Tata Group (India): Known for ethical leadership and corporate social responsibility.
- Microsoft: Focuses on transparency, accountability, and stakeholder engagement.

- Examples of Corporate Governance Failures:

- Enron (2001): Accounting fraud led to bankruptcy.
- Satyam Scandal (2009): Financial irregularities and misreporting