

Chapter - 6

Social Responsibilities Of Business & Business Ethics

• Introduction

A business enterprise should always do business keeping the people in mind, business is a part & parcel of the society and it draws all the necessary resources from the society only so it should have some social responsibilities. It should not do anything which is harmful to the interest of society. It must not resort to unethical means to increase profits. Here we shall see a few ethics to be followed by businesses.

• Concept Mapping

- Concept of social responsibility
- Need for social responsibility
- Arguments for social responsibility
- Arguments against social responsibility
- The reality of Social responsibility
- Kinds of Social Responsibility
- Social Responsibility towards different interest groups
- Business and Environmental Protection
- Types of Pollution
- Causes of Protection
- Need for Pollution Control
- Role of Business in Environmental Protection
- Business Ethics
- Concepts of Business Ethics
- Elements of Business Ethics

• Key Terms

Social Responsibility

Social Responsibility of business refers to its obligation to make those decisions and perform those actions which are desirable in terms of the objectives and values of our society.

Environment

The environment is defined as a totality of natural & man-made things existing around us. It is from the environment that the business draws its resources.

Business Environment

It is a totality of all external forces with which the business interacts constantly but over which it does not have any control. The environment influences the business directly to a great extent.

Environmental Protection

It is the deliberate process of protecting the environment from existing or potential threats of any nature.

Pollution

It is the process of emission or release of harmful substances into the environment which harms human life, the life of other species, and wasting or depleting scarce sources.

Ethics

Ethics is concerned with what is wrong & what is right in a society based on its moral values & beliefs.

Business Ethics

It refers to the socially determined moral principles which should govern the business activities.

Legal Responsibility

The business must abide by the laws governing the place at which it exists.

Code of Ethics

Enterprises with effective ethics programs do define their principles of conduct for the whole organization which is called the 'Code of Ethics'.

- **Concepts Explanation**

Concept of Social Responsibility

Social Responsibility of business refers to its obligation to make those decisions and perform those actions which are desirable in terms of the objectives and values of our society.

Need for Social Responsibility

Opinions are divided over this issue, for some - Business is responsible only to its owners & for others - It needs to be responsible for social welfare also. Anyhow a better business can survive & grow only in a better society because it takes all resources from society and serves society. So businesses become an integral part of society, therefore they should assume social responsibility.

- **Arguments for social responsibility**

Justification for existence and growth

The ultimate motive of the business is profit, as only profit can help the business grow and expand. Profit should be made as an outcome of service to society using producing goods and services to satisfy human needs.

Long term interest of the firm

A firm and its image stand to gain maximum profits in the long run when it has its highest goal as 'service to society'. When an increasing number of members of society 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.

Avoidance of government regulations

When a particular business is not socially responsible, government regulations tend to limit their freedom. Therefore, it is believed that if businessmen are socially responsible, they can avoid government regulations.

Maintenance of Society

Law alone can't help out people with all the difficulties they face. When businesses turn socially responsible they take care of society's needs, society is at peace. That means business houses also have some responsibility to contribute something for social peace & harmony.

Availability of Resources with Business

The business enterprises have huge financial resources, very efficient managers & contacts and thereby they can ensure that a social problem can be solved easily, in the best way possible.

Converting problems with opportunities

Business with its glorious history of making risky situations into profitable deals can not only solve social problems but also make them effectively useful.

A better environment for doing business

If the business is to run in a society with diverse problems, the success of the business is limited. Therefore, if the business takes measures to resolve social problems, the business can create a better environment for its functioning and thereby earn more profits.

Holding business responsible for social problems

It is argued that many problems are created by the existence of business enterprises themselves – like environmental pollution, discriminated employment, corruption, etc. Therefore a business must set right the problems caused by them.

- **Arguments against social responsibility**

Violation of maximization of the profit motive

This statement argues that businesses exist only for maximizing profits and businesses fulfill their social responsibility best by maximizing profits by increasing efficiency and reducing costs. They need not take up any additional obligations.

Burden on Consumers

Taking social care and tackling social problems require huge financial investments and businesses tend to increase their cost and put the burden on the consumer for their charitable expenses.

Lack of social skills

Businessmen lack understanding of social problems and can't solve them efficiently.

People's resistance

People tend to dislike interference from businesses in their problems.

The reality of Social Responsibility

Whatever may be the argument, either in favor of or against social responsibility, the reality is in favor of social responsibility. Let us discuss some of them below.

The threat of Public Regulations

Democratically elected governments, through their law enforcement agencies, continuously trying to ensure the welfare of the society and thus they have a watchful eye overall business operations. So to avoid government action business organizations should behave in a socially responsible manner.

The pressure of the labor movement

Labour, is not only the active factor but also activates other factors of production. Nowadays, they are more educated and their movement becomes more powerful in the world. No more 'hire and fire' policy will work; this made the businessmen to take up social responsibility towards their employees.

Impact of Consumer Consciousness

Consumers are more conscious about quality, price, etc. of the product and services. Even for small discrepancies, nowadays they prefer to file a suit in the consumer court.

Development of Social Standard for business

New standards consider business enterprises as legitimate but with a condition, they must also serve social needs.

Development of Business Education

Business education created much awareness about social responsibility in the minds of investors, consumers, employees, etc. and they became more sensitive towards social issues.

Relationship between social interest and business interest

Now people come to realize that social interest and business interest are complementary. This ensures long term benefit of the business.

Development of professional, managerial class

Earlier managers of business houses aimed at only profit maximization but professional management educational institutions created a new class of managers who gives equal importance to social responsibility too.

Conclusion

From the above seen 'Realities of Social Responsibility' it is clear that business houses must assume social responsibility for their survival and growth.

- **Kinds of Social Responsibility**

Economic Responsibility

Maximizing profit by producing and selling goods and services required for society.

Legal Responsibility

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

Ethical Responsibility

This includes the behavior of the firm that is expected by society but not included in the law. Eg. Should respect religious sentiment and dignity of people while advertizing

Discretionary Responsibility

This refers to the voluntary obligations that an enterprise assumes. E.g. Charitable contributions, providing relief during natural calamities, etc.,

Social Responsibility towards different interest groups

A business unit has to decide in which areas it should carry out social good. Few areas are explained below.

Responsibility towards shareholders or owners

To provide a fair return on their investment, ensure the safety of their investment, and to provide regular, accurate, and full information about the business.

Responsibility towards the workers

To provide opportunities for meaningful work, create the right kind of working conditions, respect the democratic rights of the workers, and ensure a fair wage deal from the management.

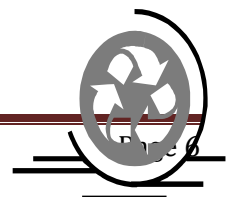
Responsibility towards the consumer

To provide the right quality and quantity of goods and services at reasonable prices and to avoid adulteration, hoarding, dishonest and misleading advertisements.

Responsibility towards the government & community

To respect the laws of the country and pay taxes regularly and honestly and act according to well-accepted values of the society and to protect the environment.

Business & Environmental Protection



The protection of the environment is a serious issue that confronts business managers and decision-makers. Business organizations are major pollutants so they have to do something to control pollution.

Causes of Pollution

Waste generated by various industries, agriculture, mining, construction, energy production, transportation, etc., causes pollution.

Environmental Problems

Pollutions result in following environmental problems identified by UNO

1. Ozone Depletion
2. Land Degradation
3. Solid & Hazardous Wastes
4. Danger to biological diversity
5. Deforestation
6. Global Warming
7. Water Pollution
8. Freshwater quality and quantity

• Types of Pollution

Air Pollution

Carbon monoxide is emitted by automobiles, smoke, and other chemicals from the manufacture and pollutes the air & lowers its quality. It also created a hole in the ozone layer leading to global warming.



Water Pollution

This is primarily from chemical and waste dumping into water bodies. This leads to the death of several animals and posed a serious threat to human life.

Land Pollution

Dumping of toxic wastes reduces the quality of land and making it unfit for agriculture or plantation.

Noise Pollution

Noise caused by the running of factories and vehicles creates a serious health hazard such as loss of hearing, malfunctioning of the heart, and mental disorders.



- **Need for Pollution Control**

To preserve precious environmental resources & improve the quality of human life pollution control becomes essential. Let us list out some reasons for pollution control.

Reduction of health hazard

Pollution control measures can check diseases like cancer, heart attack & lung complications and support a healthy life on earth.

Reduced Risk of Liability

When people are affected by toxicity released by any business, the business is liable to pay compensation. If the business installs pollution control devices, it can escape from such liability.

Cost Saving

Pollution control needs improved production technology which automatically reduces cost.

- Using environmentally friendly products, methods, and processes.

Which businesses need to behave ethically?

All businesses irrespective of size (big or small), nature, and location should behave ethically.

Why should businessmen behave ethically?

The businessman gets access to all resources such as finance, human capital, land, etc. from the society and makes profits by selling the same to the society. Therefore he needs to be ethical and shouldn't make a profit at the cost of society.

Benefits of doing Ethical Business

- Ethical business is good business
- It improves public image and support
- Earns people's confidence and trust
- Leads to greater success
- Helps in long-term standing
- Elements of Business Ethics

Top Management commitment

Higher-level managers need to be openly and strongly committed to ethical conduct. They should continuously try and uphold the values of the organization and society.

Publication of a 'code'

'Code' refers to the written ethical programs followed by a particular business or industry –

which normally covers the areas of honesty, adherence to laws, product's safety and quality, and fairness in all dealings.

Establishment of Compliance Mechanism

Simply having a written 'Code of Ethics' is not sufficient, the business needs to ensure its effective implementation at all levels & throughout the life of the business.

Involving employees at all levels

To make the ethical business a reality, employees at all levels must be involved.

Measuring Results

Measuring the results of ethics programs may be difficult but can have an audit at regular intervals to monitor compliance with ethical standards and decide about the further course of action.

