Chapter 6: Social Responsibilities of Business and Business Ethics

Exercises — Exercises

Q1 What do you understand by social responsibility of business? How is it different from legal responsibility?

Social responsibility of business is its obligation to take those decisions and perform those actions that are desirable in terms of the objectives and values of society. The business respects society's aspirations and tries to help achieve them along with its own profit interests. Difference from legal responsibility: (a) Legal responsibility is met by merely complying with the law, whereas social responsibility goes beyond the law. (b) Legal responsibility is compulsory and laid down by law, whereas social responsibility involves an element of voluntary action by business people for the benefit of society. (c) Social responsibility recognises obligations not covered by law, in addition to those the law prescribes, so it is broader in scope.

Q2 What is environment? What is environmental pollution?

Environment is the totality of man's surroundings, both natural and man-made. These surroundings are resources useful for human life: natural resources such as land, water, air, fauna, flora and raw materials, and man-made resources such as cultural heritage, socio-economic institutions and the people. Environmental pollution is the injection of harmful substances into the environment, largely as a result of industrial production. It changes the physical, chemical and biological characteristics of air, land and water, harms human and other life, degrades living conditions, wastes or depletes raw material resources and affects cultural heritage. It arises when pollutants are released beyond the environment's limited capacity to absorb them.

Q3 What is business ethics? Mention the basic elements of business ethics.

Business ethics refers to the socially determined moral principles which should govern business activities. It deals with the relationship between business objectives, practices and techniques and the good of society. Examples are charging fair prices, using fair weights, treating workers fairly and earning reasonable profits. Basic elements: (i) Top management commitment, (ii) Publication of a code of conduct, (iii) Establishment of compliance mechanisms, (iv) Involving employees at all levels, and (v) Measuring results of ethics programmes through audits and discussion.

Q4 Briefly explain (a) Air Pollution, (b) Water pollution, and (c) Land pollution.

(a) Air pollution: a combination of factors that lowers air quality. Carbon monoxide from automobiles, and smoke and chemicals from manufacturing plants, are the main causes. It has contributed to a hole in the ozone layer and dangerous warming of the earth. (b) Water pollution: water gets polluted mainly through chemical and waste dumping. Business enterprises have long dumped waste into rivers, streams and lakes with little regard for consequences, causing deaths of animals and a serious threat to human life. (c) Land pollution: dumping of toxic wastes on land damages its quality and makes it unfit for agriculture or plantation. Restoring land already damaged is a big problem.

Q5 What are the major areas of social responsibility of business?

Business has responsibilities towards different interest groups: (i) Shareholders or owners: a fair return on investment, safety of that investment, and regular, accurate and full information about working and future plans. (ii) Workers: meaningful work, good working conditions, respect for their right to form unions, and fair wages. (iii) Consumers: goods and services of right quality and quantity at reasonable prices, protection against adulteration, poor quality and misleading advertising, and the right to information. (iv) Government and community: obeying laws, paying taxes honestly, protecting the natural environment, avoiding unhealthy working conditions and building a proper image in society.

Q6 State the meaning of Corporate Social Responsibility as per the Companies Act 2013.

In India, CSR is governed by Clause 135 of the Companies Act, 2013. The chapter notes there is no single universally accepted definition; definitions highlight the impact of business on society and society's expectations of it. For example, the European Commission calls CSR the responsibility of enterprises for their impacts on society, and the World Business Council for Sustainable Development calls it a continuing commitment by business to contribute to economic development while improving the quality of life of the workforce, their families, the community and society at large. Under the Act, qualifying companies must undertake CSR activities, set up a CSR committee and spend on specified activities.

Q7 Build up arguments for and against social responsibilities.

Arguments for: (i) Justification for existence and growth: profit should be an outcome of service to people, and business prospers through continuous service to society. (ii) Long-term interest of the firm: a firm that puts service first gains a better image and lasting profits. (iii) Avoidance of government regulation: voluntary responsibility reduces the need for new laws. (iv) Maintenance of society: laws cannot cover every case, and neglected groups may turn anti-social. (v) Availability of resources with business: its financial and managerial resources can solve problems. (vi) Converting problems into opportunities. (vii) Better environment for doing business. (viii) Holding business responsible for problems it has created, such as pollution and corruption.

Arguments against: (i) Violation of the profit maximisation objective, since business best serves society by maximising profits through efficiency. (ii) Burden on consumers, as costs like pollution control get passed on through higher prices. (iii) Lack of social skills, as businessmen lack training to solve social problems. (iv) Lack of broad public support, as the public does not like business interference in social programmes.

Q8 Discuss the forces which are responsible for increasing concern of business enterprises toward social responsibility.

Despite the arguments against, several forces have made businesses more socially concerned: (i) Threat of public regulation: welfare states act against irresponsible business, so firms act responsibly to avoid regulation. (ii) Pressure of labour movement: organised, educated labour has forced firms to respect worker welfare instead of 'hire and fire'. (iii) Impact of consumer consciousness: caveat emptor has given way to 'customer is king', so firms follow customer-oriented policies. (iv) Development of social standards for business: business is judged by society's standards and must serve social needs. (v) Development of business education: educated consumers, investors and employees are more sensitive to social issues. (vi) Relationship between social and business interest: the two are complementary, since long-term benefit lies in serving society. (vii) Development of a professional managerial class: professional managers try to satisfy many interest groups, not just pursue profit.

Q9 'Business is essentially a social institution and not merely a profit making activity'. Explain.

Business exists to supply goods and services that satisfy human needs, and it operates only because society permits it to. Though profit is important, it should be seen as an outcome of serving people, and business cannot function in isolation from society. Several economic and social forces, such as public regulation, labour pressure, consumer consciousness, business education and professional management, have turned business into a socio-economic activity. It is no longer a mere occupation but an economic institution that must reconcile its short-term and long-range economic interests with society's demands. While business must justify itself by economic performance, it is also an organ of society and must justify its continuance by fulfilling its roles and responsibilities to society. Hence it is a social institution, not merely a profit-making activity.

Q10 Why do the enterprises need to adopt pollution control measures?

Enterprises cannot remain unaffected by environmental destruction, and people are increasingly protesting against polluting activities. Pollution control is needed for these reasons: (i) Reduction of health hazards: pollutants cause diseases such as cancer, heart attacks and lung complications, and control measures support healthy life. (ii) Reduced risk of liability: a firm may have to pay compensation for toxic wastes it releases, so installing control devices lowers this risk. (iii) Cost savings: improper technology creates more waste, raising disposal and cleaning costs, so effective control saves money. (iv) Improved public image: a firm that protects the environment earns a good reputation and is seen as socially responsible. (v) Other social benefits: clearer visibility, cleaner buildings, better quality of life and purer natural products.

Q11 What steps can an enterprise take to protect the environment from the dangers of pollution?

Businesses command resources and know-how, and can often cut pollution at the source by changing production processes, redesigning equipment or substituting better materials. Specific steps: (i) A definite commitment by top management to build a work culture for environmental protection and pollution prevention. (ii) Ensuring this commitment is shared by all divisions and employees. (iii) Clear policies and programmes for buying good quality raw materials, using superior technology, scientific waste disposal and treatment, and developing employee skills for pollution control. (iv) Complying with government laws and regulations on pollution prevention. (v) Participating in government programmes such as managing hazardous substances, cleaning polluted rivers, planting trees and checking deforestation. (vi) Periodic assessment of pollution control programmes in terms of costs and benefits. (vii) Organising workshops and training materials to share technical information with suppliers, dealers and customers so they join pollution control.

Q12 Explain the various elements of business ethics.

Elements of business ethics that help an enterprise foster ethical behaviour: (i) Top management commitment: the CEO and other senior managers must be openly and strongly committed to ethical conduct and provide continuous leadership in upholding the organisation's values. (ii) Publication of a code: effective programmes put principles of conduct in written form, covering honesty and legal adherence, product safety and quality, workplace health and safety, conflicts of interest, employment practices, fair marketing and financial reporting. (iii) Establishment of compliance mechanisms: such as attention to ethics in hiring, ethics training, regular audits of compliance and channels for employees to report unethical behaviour. (iv) Involving employees at all levels: since they implement ethics policies, for example through small discussion groups. (v) Measuring results: though hard to measure exactly, firms can audit compliance and discuss the results with management and employees for further action.

Q13 Discuss the guidelines enumerated by the Companies Act 2013 for Corporate Social Responsibility.

CSR in India is governed by Clause 135 of the Companies Act, 2013. Guidelines: (i) The provisions apply to companies with annual turnover of Rs 1,000 crore or more, or net worth of Rs 500 crore or more, or net profit of Rs 5 crore or more. (ii) Applicable from fiscal year 2014-15, companies must set up a CSR committee of board members, including at least one independent director. (iii) Companies are encouraged to spend 2% of their average net profit of the previous three years on CSR activities. (iv) Indicative activities that can be undertaken are specified in Schedule VII of the Act. (v) Only CSR activities undertaken in India are considered. (vi) Activities meant exclusively for employees and their families do not qualify as CSR.