

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Social Responsibilities of Business and Business Ethics – Part 1
Module Id	kebs_10601
Pre-requisites	Knowledge about Social surroundings
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none">• Explain the concept of social responsibility;• Discuss the need for social responsibility;• Identify the social responsibility towards different interest groups.
Keywords	Social Responsibility, Interested Groups, CSR

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Introduction

A business enterprise should do business and earn money in ways that fulfil the expectations of the society. Every individual living in society has certain obligations towards society. He has to respect social values and norms of behaviour. A business enterprise is permitted by society to carry on industrial or commercial activities and thereby earn profits.

It is obligatory on part of the business enterprise not to do anything, that is undesirable from society's point of view. Manufacture and sale of adulterated goods, making deceptive advertisements, not paying taxes which are due, polluting the environment and exploiting workers are some examples of socially undesirable practices which may increase the profit of enterprises but which have adverse effect on society at large.

- ❖ On the other hand, supplying good quality goods, creating healthy working conditions, honestly paying taxes prevention/installing pollution devices in the factory, and sincerely attending to customer complaints are examples of socially desirable practices which improve the image of enterprises and also make them profitable. In fact, it is through socially responsible and ethically upright behaviour that business enterprises can get durable success.

Concept of Social Responsibility

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

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- The assumption of social responsibilities by business enterprises implies that they respect the aspirations of society and would try their best to contribute to the achievement of these aspirations along with their profit interests.
 - This idea is in contrast to the common notion that business exists only for maximizing profits for its owners and it is irrelevant to talk of public good. It follows that a responsible business, and indeed any responsible member of society, must act with due concern for the effects on the lives of other people.
 - In this sense, social responsibility is broader than legal responsibility of business. Legal responsibility may be fulfilled by mere compliance with the law. Social responsibility is more than that. It is a firm's recognition of social obligations even though not covered by law, along with the obligations laid down by law.
 - In other words, social responsibility involves an element of voluntary action on the part of business people for the benefit of society.

Need for Social Responsibility

- ❖ What is the right thing to do when it comes to social responsibility? Should a business enterprise be run for the benefit of its owners who may desire to get as much profit as is possible or else, it needs to be responsible for serving the interest of other sections of society such as customers, employees, suppliers, government and community?
- ❖ The very concept of social responsibility implies that it is essentially an ethical issue, since it involves the question of what is morally right or wrong in relation to the firm's responsibilities. Social responsibility also has an element of voluntary action on the part of the business person who may feel free to perform or not to perform such responsibilities. They may also exercise their freedom for deciding the extent to which they would like to serve various sections of society. In fact, all business people do not feel equally responsible towards society.
- ❖ There has been a debate, for some time now whether business should assume social responsibilities or not. Some people strongly believe that a firm's only social responsibility is towards its owners. Some others, however, hold an opposite view and argue that the firm has a social responsibility to serve all sections of society who are affected by its decisions and actions. It would be useful to understand the arguments offered both in favour of and against the assumption of social responsibilities by business.

Corporate Social Responsibility (CSR) Whereas it is the responsibility of every form of business enterprise — be it sole proprietorship, partnership, joint Hindu family, cooperative, or a joint stock company to act in a socially desirable manner, the concept

of CSR, used particularly with reference to a company, has recently gained popularity. Corporate social responsibility can be defined as achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment. CSR means addressing the legal, ethical, commercial and other expectations that society has from corporates who should take decisions and actions that fairly balance the claims of all the stakeholders (i.e., the people who have interest in the life of a corporate including shareholders, creditors, consumers, competitors, workers, government and society at large) CSR is viewed as a comprehensive set of policies, practices and programmes that are integrated into business operations, supply claims and decision making process throughout the company — wherever the company does business — and includes responsibility for current and past actions as well as future impact.

AS PER SECTION 135 OF COMPANIES ACT, 2013

- ✓ Every company having net worth of rupees five hundred crore or more, or
- ✓ turnover of rupees one thousand crore or more or
- ✓ a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the board consisting of three or more directors, out of which at least one director shall be an independent director.

JUSTIFICATION FOR
EXISTENCE AND
GROWTH

LONG-TERM INTEREST
OF THE FIRM:

AVOIDANCE OF
GOVERNMENT
REGULATION

MAINTENANCE OF
SOCIETY

AVAILABILITY OF
RESOURCES WITH
BUSINESS

CONVERTING
PROBLEMS INTO
OPPORTUNITIES

BETTER
ENVIRONMENT FOR
DOING BUSINESS

HOLDING BUSINESS
RESPONSIBLE FOR
SOCIAL PROBLEMS:

Arguments for Social Responsibility

(i) Justification for existence and growth: Business exists for providing goods and services to satisfy human needs. Though, profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of service to the people. In fact, the prosperity and growth of business is possible only through continuous service to society. Thus, assumption of social responsibility by business provides justifications for its existence and growth.

(ii) Long-term interest of the firm: A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society'. When increasing number of members of society — including workers, consumers, shareholders, government officials, 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 fulfils its social responsibility. The public image of any firm would also be improved when it supports social goals.

(iii) Avoidance of government regulation: From the point of view of a business, government regulations are undesirable because they limit freedom. Therefore, it is believed that businessmen can avoid the problem of government regulations by voluntarily assuming social responsibilities, which helps to reduce the need for new laws.

(iv) Maintenance of society: The argument here is that laws cannot be passed for all possible circumstances. People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law. This may harm the interest of business itself. Therefore, it is desirable that business enterprises should assume social responsibilities.

(v) Availability of resources with business: This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems. For example, business has a pool of managerial talent and capital resources, supported by years of experience in organising business activities. It can help society to tackle its problems better, given the huge financial and human resources at its disposal.

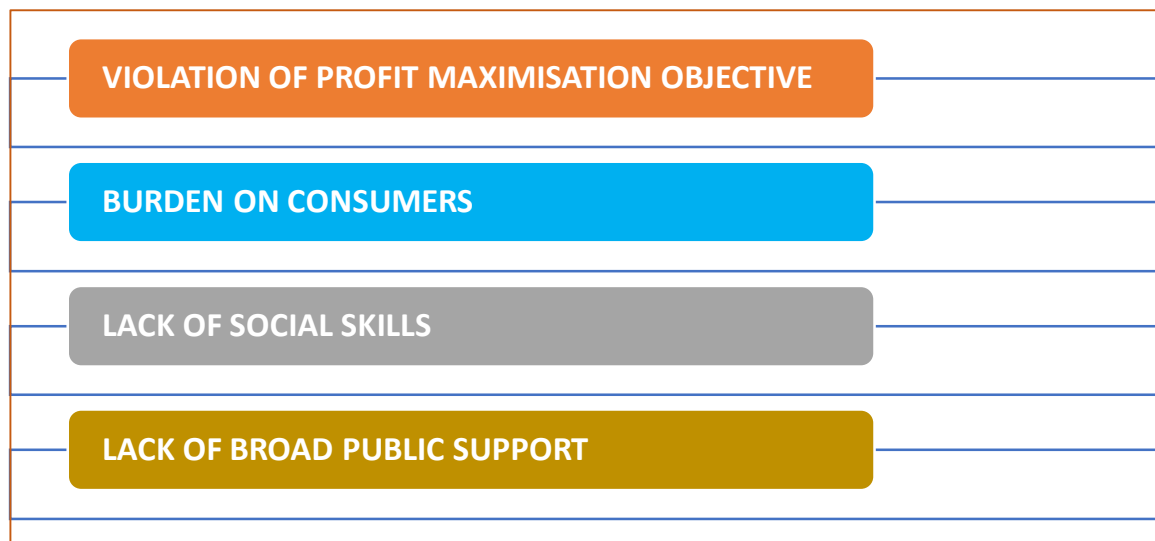
(vi) Converting problems into opportunities: Related with the preceding argument is the argument that business with its glorious history of converting risky situations into profitable deals, can not only solve social problems but it can also make them effectively useful by accepting the challenge.

(vii) Better environment for doing business: If business is to operate in a society which is full of diverse and complicated problems, it may have little chance of success. Therefore, it is argued that the business system should do something to meet needs before it is confronted with

a situation when its own survival is endangered due to enormous social illnesses. A society with fewer problems provides better environment for a firm to conduct its business.

(viii) Holding business responsible for social problems: It is argued that some of the social problems have either been created or perpetuated by business enterprises themselves. Environmental pollution, unsafe workplaces, corruption in public institutions, and discriminatory practices in employment are some of these problems. Therefore, it is the moral obligation of business to get involved in solving these problems, instead of merely expecting that other social agencies will deal with them on their own.

Arguments against Social Responsibility



Major arguments against social responsibility are:

(i) Violation of profit maximisation objective: According to this argument, business exists only for profit maximisation. Therefore, any talk of social responsibility is against this objective. In fact, business can best fulfil its social responsibility if it maximises profits through increased efficiency and reduced costs.

(ii) Burden on consumers: It is argued that social responsibilities like pollution control and environmental protection are very costly and often require huge financial investments. In such circumstances, businessmen are likely to simply shift this burden of social responsibility by charging higher prices from the consumers instead of bearing it themselves. Therefore, it is unfair to tax the consumers in the name of social responsibility.

(iii) Lack of social skills: All social problems cannot be solved the way business problems are solved. In fact, businessmen do not have the necessary understanding and training to solve social problems. Therefore, according to this argument, social problems should be solved by other specialised agencies.

(iv) Lack of broad public support: Here the argument is that the public in general does not like business involvement or interference in social programmes. Therefore, business cannot

operate successfully because of lack of public confidence and cooperation in solving social problems.

Reality of Social Responsibility

- On the basis of the above arguments for and against social responsibility, one may wonder what the businessmen do in reality. Do they concentrate on profit maximisation? Or, do they support social goals?
- The fact is that one of the most important recent changes in the attitude of business people has been the realisation that they have social obligations to fulfill besides ensuring their own existence through profitable activity. Of course, part of this realisation is not genuine and takes the form of lip service, which is thought necessary to ensure the survival of private enterprise.
- But at the same time it cannot be denied that private business does partly realise and recognise the hard reality that a privately owned firm has to meet the challenge of a democratic society, where all people have certain human rights and therefore, can demand responsible conduct from business.
- Unless the business sets its house in order, changes its outlook and is prepared to play its legitimate role as an organ of society, it has little chance of success. It will be useful here to go into some of the reasons and factors, which have forced and persuaded businessmen to consider their responsibilities and the conditions which were favourable to the development of business concern with social responsibility. Some of the more important among them are:

(i) Threat of public regulation: Democratically elected governments of today are expected to act as welfare states whereby they have to take care of all sections of society. Thus, where business institutions operate in a socially irresponsible manner, action is taken to regulate them for safeguarding people's interest. This threat of public regulation is one important reason due to which business enterprise feels concerned with social responsibility.

(ii) Pressure of labour movement: Over the last century or so, labour has become far more educated and organised. Accordingly, labour movement for extracting gains for the working class throughout the world has become very powerful. This has forced business enterprises to pay due regard to the welfare of workers instead of following a policy of 'hire and fire' under which they could deal with workers at their will.

(iii) Impact of consumer consciousness: Development of education and mass media and increasing competition in the market have made the consumer conscious of his right and power

in determining market forces. The principle of caveat emptor (or let the buyer beware) has been substituted by the principle of 'customer is king'. Business enterprises have started following customer oriented policies.

(iv) Development of social standard for business: Businesses are no longer considered merely money crazy entities which can be allowed to mint money at any cost and get away with any kind of business practices. New social standards consider economic activity of business enterprises as legitimate but with the condition that they must also serve social needs. No business can be done in isolation from society. It is the society that permits business to exist and grow and it is on the basis of social standards that business functioning is to be ultimately judged.

(v) Development of business education: Development of business education with its rich content of social responsibility has made more and more people aware of the social purpose of business. Educated persons as consumers, investors, employees, or owners have become more sensitive towards social issues than was the case earlier, when such education was not available.

(vi) Relationship between social interest and business interest: Business enterprises have started realising the fact that social interest and business interest are not contradictory. Instead, these are complementary to each other. The feeling that business can grow only through exploitation of society has given way to the belief that long-term benefit of business lies in serving the society well. So also, a useful institution like business is recognised as an essential element of a modern civilised society.

(vii) Development of professional, managerial class: Professional management education in universities and specialised management institutes have created a separate class of professional managers who have got an altogether different attitude towards social responsibility as compared to the earlier class of owner manager. Professional managers are more interested in satisfying a multiplicity of interest groups in society for running their enterprises successfully than merely following profit goals.

These and a number of other social and economic forces have combined together to make business a socioeconomic activity. Business is no longer a mere occupation; it is an economic institution that has to reconcile its short-term and long range economic interests with the demands of the society in which it functions. Essentially, it is this which gives rise to the

general and specific social responsibilities of business. While there is no denial of the fact that business is essentially an economic enterprise and that it must ultimately justify itself on economic performance, it is also true that business is an organ of society and as such it must justify its continuance by fulfilling its roles and responsibilities of society.

Kinds of Social Responsibility

Social responsibility of business can broadly be divided into four categories, which are as follows:



(a) Economic responsibility: A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit. There is little discretion in performing this responsibility.

(b) Legal responsibility: Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.

(c) Ethical responsibility: This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product. There is an element of voluntary action in performing this responsibility.

(d) Discretionary responsibility: This refers to purely voluntary obligation that an enterprise assumes, for instance, providing charitable contributions to educational institutions or helping the affected people during floods or earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

Social Responsibility Towards Different Interest Groups



Once the social objective of business is recognised, it is important to know to whom and for what the business and its management are responsible. Obviously, a business unit has to decide in which areas it should carry out social goals. Some of the specific responsibilities and enterprise may be outlined as under:

(i) Responsibility towards the shareholders or owners: A business enterprise has the responsibility to provide a fair return to the shareholders or owners on their capital investment and to ensure the safety of such investment. The corporate enterprise on a company form of organization must also provide the shareholders with regular, accurate and full information about its working as well as schemes of future growth.

(ii) Responsibility towards the workers: Management of an enterprise is also responsible for providing opportunities to the workers for meaningful work. It should try to create the right kind of working conditions so that it can win the cooperation of workers. The enterprise must respect the democratic rights of the workers to form unions. The worker must also be ensured of a fair wage and a fair deal from the management.

(iii) Responsibility towards the consumers: Supply of right quality and quantity of goods and services to consumers at reasonable prices constitutes the responsibility of an enterprise toward its customers. The enterprise must take proper precaution against adulteration, poor quality,

lack of desired service and courtesy to customers, misleading and dishonest advertising, and so on. They must also have the right of information about the product, the company and other matters having a bearing on their purchasing decision.

(iv) Responsibility towards the government and community: An enterprise must respect the laws of the country and pay taxes regularly and honestly. It must behave as a good citizen and act according to the well accepted values of the society. It must protect the natural environment and should avoid bad, effluent, smoky chimneys, ugly buildings dirty working conditions. It must also develop a proper image in society through continuous interaction with various groups of people.

Summary

Concept of social responsibility: Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society.

Need for social responsibility: Need for social responsibility of business arises both because of firm's interest and the interest of society. However, there are arguments both for and against social responsibility.

Arguments for social responsibility: Major arguments are: (i) justification for existence and growth, (ii) long-term interest and image of the firm, (iii) avoidance of government regulation, (iv) maintenance of orderly society, (v) availability of resources with business, (vi) converting problems into opportunity, (vii) better environment for doing business, and (viii) holding the business responsible for social problems.

Arguments against social responsibility: Major arguments against social responsibility are: (i) violation of profit maximization objective, (ii) burden on consumers, (iii) lack of social skills and (iv) lack of broad public support.

Reality of social responsibility: Reality of social responsibility is that, despite differing arguments relating to social responsibility, business enterprises are concerned with social responsibility because of the influence of certain external forces. These forces are: (i) threat of public regulation, (ii) pressure of labour movement, (iii) impact of consumer consciousness, (vi) development of social standard for businessmen, (v) development of business education,

(vi) relationship between social interest and business interest, and (vii) development of professional, managerial class.

Social responsibility towards different interest groups: Business enterprises have responsibility towards (i) shareholders or owners, (ii) workers, (iii) consumers and (iv) government and community giving fair return on and safety of investment to shareholders, providing opportunities to workers for meaningful work, supplying right quality and quantity of goods and services to consumers and paying to the government, and protecting natural environment are some of the social responsibilities of business.