CHAPTER 6

SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the concept of social responsibility;
- discuss the need for social responsibility;
- identify the social responsibility towards different interest groups;
- analyse the relationship between business and environmental protection; and
- define the concept of business ethics and state the elements of business ethics.

Mani is a young newspaper reporter and has been writing for almost six months on malpractices by business enterprises including such issues as misleading advertisements, supply of adulterated products, poor working conditions, environmental pollution, bribing government officials, and so on. He has started believing that business people tend to do anything to mint money. He happens to take an interview of Mr. Raman Jhunjhunwala, chairman of a leading truck manufacturing company which is known for its fair dealing with customers, employees, investors as well as other social groups. Through this interview, Mani develops the understanding that it is possible for a business enterprise to be socially responsible and ethically upright and, at the same time, be highly profitable. He then gets busy with studying more about the social responsibility of business and business ethics.

6.1 Introduction

A business enterprise should do business and earn money in ways that fulfill 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. But 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.

6.2 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. 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 maximising 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.

6.3 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

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.

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.

6.3.1 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 fulfills it's 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.

6.3.2 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 fulfill 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.

6.3.3 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 socio-economic 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.

6.4 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.

6.5 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 organisation 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.

6.6 Business and Environmental Protection

Protection of the environment is a serious issue that confronts business managers and decision makers. The environment is defined as the totality of man's surroundings — both natural and man-made. These surroundings are also in the nature of resources, that are useful for human life. The resources may also be called natural resources like land, water, air, fauna and flora and raw materials; or man-made resources such as cultural heritage, socio-economic institutions and the people. It is widely recognised that the quality of the environment is fast deteriorating particularly due to industrial activity. This is a common sight around major cities like Kanpur, Jaipur, Delhi, Panipat, Kolkata, and others, in various states of our country. Their emissions are seriously affecting the health of the people. Pollution — the injection of harmful substances into the environment is, in fact, largely the result of industrial production. Since some waste is inevitable in the use of materials and energy, the manufacturers face a great challenge in minimising the adverse impact of this waste by using proper technologies. Protection of the environment is good for all of us.

Pollution changes the physical, chemical and biological characteristics of air, land and water. Pollution harms human life and the life of other species. It also degrades living conditions while wasting or depleting raw material resources. The country's cultural heritage is also affected and it is becoming increasingly difficult to protect all historical monuments. Pollution exists because the environment can absorb only a limited amount of pollutants and wastes. Some hazardous wastes or toxic by-products and chemicals are termed as hazardous pollutants because they have toxic characteristics that the environment can not assimilate. Pollution thus causes risks to environmental quality, human health and damage to natural and man-made resources. Protection of the environment is directly related to the control of pollution.

6.6.1 Causes of Pollution

It must be recognised that all sectors of our society viz., industry, government, agriculture, mining, energy, transportation, construction, and consumers generate waste. Wastes contain pollutants which are the materials of chemicals that have been discarded during the process of production or consumption. Pollution is caused by these pollutants which are released into the environment beyond its assimilation capacity. Among the various sources of pollution, industry is a major generator of waste in terms of both its quantity and toxicity. Business activities such as production, distribution, transport, storage, consumption of goods and services are known to be the most critical sources

of environmental pollution problems. Many business enterprises have been responsible for causing (i) air, (ii) water (iii) land, and (iv) noise pollution.

These types of pollution are discussed as follows:

(i) Air pollution: Air pollution is the result of a combination of factors which lowers the air quality. It is mainly due to carbon monoxide emitted by automobiles which contributes to air pollution. Similarly, smoke and other chemicals from manufacturing plants pollute the air. Resultant air pollution has created a hole in the ozone layer leading to dangerous warming of the earth.

(ii) Water pollution: Water becomes polluted primarily from chemical and waste dumping. For years, business enterprises have been dumping waste into rivers, streams and lakes with little regard for the consequences. Water pollution has led to the death of several animals and posed a serious threat to human life.

(iii) Land pollution: Dumping of toxic wastes on land causes land pollution. This damages the quality of land making it unfit for agriculture or plantation. Restoring the quality of the land that has already been damaged is a big problem.

(iv) Noise pollution: Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

6.6.2 Need for Pollution Control

Pollution prevention or control is needed to preserve precious environmental resources and to improve the environmental quality so that the preserved resources can be utilised for the benefit of mankind and the improvement of health and well-being of the people. The amount of damage to a particular medium (air, water, land) varies according to the type of pollutant, the amount of pollutant disposed of, and the distance from the source of pollution. But all pollutants alter the quality of the environment and render it, to some degree, unfit to preserve normal life. People are now raising their voice loudly against pollution generating activities. Business enterprises cannot remain unaffected by environmental destruction. They need to take suitable measures for pollution control not

Environmental Problems

The united nations has identified eight problems that cause damage to the natural environment. These are:

(i) Ozone depletion
(ii) Global warming
(iii) Solid and hazardous wastes
(iv) Water pollution
(v) Fresh water quality and quantity
(vi) Deforestation
(vii) Land degradation
(viii) Danger to biological diversity

merely to avoid criticisms against them but also to enjoy other benefits of such measures. Some of the important reasons which make a case for pollution control are as follows:

(i) Reduction of health hazards: There is increasing evidence that many diseases like cancer, heart attacks and lung complications are caused by pollutants in the environment. Pollution control measures can not only check the seriousness of such diseases but can also be supportive of a healthy life on earth.

(ii) Reduced risk of liability: It is possible that an enterprise is held liable to pay compensation to people affected by the toxicity of gaseous, liquid and solid wastes it has released into the environment. Therefore, it is sound business policy to install pollution control devices in its premises to reduce the risk of liability.

(iii) Cost savings: An effective pollution control programme is also needed to save costs of operating business. Cost savings are particularly noticeable when improper production technology results in greater wastes which leads to higher cost of waste disposal and cost of cleaning the plants.

(iv) Improved public image: As society becomes increasingly conscious of environmental quality, a firm's policies and practices for controlling wastes will increasingly influence people's attitude towards its working. A firm that promotes the cause for environment will be able to enjoy a good reputation and will be perceived as a socially responsible enterprise.

(v) Other social benefits: Pollution control results in many other benefits like clearer visibility, cleaner buildings, better quality of life, and the availability of natural products in a purer form.

6.6.3 Role of Business in Environmental Protection

Since the quality of the environment is important for all of us, we have a collective responsibility to protect it from being spoiled. Whether it is government, business enterprises, consumers, workers, or other members of society, each one can do something to stop polluting the environment. Government can enact laws to ban hazardous products. Consumers, workers and the members of society can avoid using certain products and doing things that are not environment friendly.

The business enterprises should, however, take the lead in providing their own solutions to environmental problems. It is the social responsibility of every business to take steps not only to check all sorts of pollution but also to protect environmental resources. Business enterprises are leading creators of wealth, employment, trade and technology. They also command huge financial, physical and human resources. They also have the know-how to solve environmental pollution problems with a preventive approach by controlling pollutants at the source. In most cases, a modification or change in the process of production, redesign of equipment, substituting poor quality materials with better ones or other

innovative approaches could greatly reduce or even eliminate pollution entirely. Some of the specific steps which can be taken by business enterprises for environmental protection are as stated below:

(i) A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.

(ii) Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.

(iii) Developing clear-cut policies and programmes for purchasing good quality raw materials, employing superior technology, using scientific techniques of disposal and treatment of wastes and developing employee skills for the purpose of pollution control.

(iv) Complying with the laws and regulations enacted by the Government for prevention of pollution.

(v) Participation in government programmes relating to management of hazardous substances, clearing up of polluted rivers, plantation of trees, and checking deforestation.

(vi) Periodical assessment of pollution control programmes in terms of costs and benefits so as to increase the progress with respect to environmental protection.

(vii) Arranging educational workshops and training materials to share technical information and experience with suppliers, dealers and customers to get them actively involved in pollution control programmes.

6.7 Business Ethics

From the social point of view, business exists to supply goods and services to the people. From the individual point of view, the primary objective of a business firm is to earn profit. One may expect that the individual goals of the firm would not be in conflict with the objectives of society. However, business enterprises are run by human beings whose decisions and actions may not always be in accordance with the expectations of society. An enterprise may be good in terms of economic performance (like revenue, costs and profits) but poor in terms of social performance like supplying products of reasonable quality and at reasonable prices. This raises the question of what is right or wrong from society's point of view. The answer to this question is important because business enterprises are products of and are influenced by society. They have to interpret and adjust to the preferences or values of society. The subject matter of ethics is concerned with establishing linkages between individual good and social good.

6.7.1 Concept of Business Ethics

The word 'ethics' has its origin in the Greek word 'ethics' meaning character; norms, ideals or morals prevailing in a group or society. Ethics is concerned with what is right and what is wrong in

human behaviour judged on the basis of a standard form of conduct/ehaviour of individuals, as approved by society in a particular field of activity. Ethics may be viewed as the entire body of moral values that society attaches to the actions of human beings. Ethics can also refer to codes or other system for controlling means so that they serve human ends. Ethical standards are often enacted into laws. But ethical behaviour is just and fair conduct which goes beyond observing laws and government regulations. It means adhering to moral principles, being guided by particular values, and behaving in a way people ought to act. The set of principles called ethics may be written or unwritten codes or principles governing a professional or human activity.

Business ethics concerns itself with the relationship between business objectives, practices, and techniques and the good of society. Business ethics refer to the socially determined moral principles which should govern business activities. A few examples of

Environmental Protection in India
(Steps by the Government)

1. Laws: The directive principles of state policy in the Constitution of India lay emphasis on protection of environment. Some of the laws enacted are as under:
   i. The Wildlife Protection Act, 1972
   ii. The Water (Prevention and Control of Pollution) Act, 1974 amended in 1974 and 1988
   iii. The Air (Prevention and Control of Pollution) Act, 1974 amended in 1974 and 1988
   iv. The Environment (Protection) Act, 1986
   v. The Forests (Conservation Act, 1980 amended in 1988
   vi. The Hazardous Wastes Act, 1989
2. Regulations: Administrative orders/policy guidelines have been laid down by the government. A separate Department of Environment, Government of India was created in 1980.
3. Certain regulatory bodies or quasi-judicial authorities have been established such as:
   - National Afforestation and Eco-development Board, and
   - National Wastelands Development Board
4. Manufacturing units have been closed in cities. High Court of Delhi ordered shifting of manufacturing units out of Delhi and closing them. Similarly, courts have ordered removal of foundaries from Agra city, and shifting of manufacturing factories from Kanpur.
5. Various programmes on environment education, and seminars on creating awareness and resource are being organised regularly.
6. Government has also laid down Environment Action Plan (EAP).

business ethics are: charging fair prices from customers, using fair weights for measurement of commodities, giving fair treatment to workers and earning reasonable profits. A businessperson behaves ethically when her or his actions are upright and serve the interest of society. This, of course, also applies to those not in business. The essential difference is perhaps that businesspersons by virtue of their widespread control over society's resources have a much greater effect on what happens in a society than persons in other areas of activity do. Business people and politicians are expected to have higher standards over and above other people. This is perhaps the price they pay for being allowed to make decisions on behalf of society.

There is a growing realisation all over the world that ethics is vitally important for every business and for the progress of any society. Ethical business is good business. Ethical business behaviour improves public image, earns people's confidence and trust, and leads to greater success. Ethics and profits go together in the long run. Ethics alone, and not government or laws, can make a society great. An ethically responsible enterprise develops a culture of caring for people and environment and commands a high degree of integrity in dealing with others. Ethical activity is indeed valuable in itself, for its own sake, because it enhances the quality of our lives and that of the work we do.

6.7.2 Elements of Business Ethics

Since ethical business behavior is good for both the business enterprise and society, it makes sense to discuss how the enterprises can foster ethics in their day-to-day working. Some of the basic elements of business ethics while running a business enterprise are as under:

(i) Top management commitment: Top management has a crucial role in guiding the entire organisation towards ethically upright behaviour. To achieve

Origin of Three Similar Concepts

(a) Corporate Social Responsibility: It originated in U.S.A where Government had passed Anti-Trust Act against monopolistic practices, so as to protect and improve the welfare of society.

(b) Business Ethics: This also originated in U.S.A in the 1970s. Business ethics highlighted social values and society's concerns in relation to business and forced the corporates in that country to abstain from policies and practices which were hostile to consumers and environmental protection.

(c) Corporate Governance: It originated in the U.K. for the purpose of improved accountability of directors to shareholders, emphasis on more transparent auditing and increased responsibilities of independent directors, and division of roles of chairman and managing directors for safeguarding interests of shareholders.

results, the Chief Executive Officer (or CEO) and other higher level managers need to be openly and strongly committed to ethical conduct. They must give continuous leadership for developing and upholding the values of the organisation.

(ii) Publication of a 'Code': Enterprises with effective ethics programmes do define the principles of conduct for the whole organisation in the form of written documents which is referred to as the "code". This generally covers areas such as fundamental honesty and adherence to laws; product safety and quality; health and safety in the workplace; conflicts of interest; employment practices; fairness in selling/marketing practices; and financial reporting.

(iii) Establishment of compliance mechanisms: In order to ensure that actual decisions and actions comply with the firm's ethical standards, suitable mechanisms should be established. Some examples of such mechanisms are: paying attention to values and ethics in recruiting and hiring; emphasising corporate ethics in training; auditing performance regularly to analyse the degree of compliance; and instituting communication systems to help employees report incidents of unethical behaviour.

(iv) Involving employees at all levels: It is the employees at different levels who implement ethics policies to make ethical business a reality. Therefore, their involvement in ethics programmes becomes a must. For example, small groups of employees can be formed to discuss the important ethics policies of firms and examine attitudes of employees towards these policies.

(v) Measuring results: Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards. The top management team and other employees should then discuss the results for further course of action.

Ground Rules of Ethics

The following are some of the universal virtues which every human being should imbibe, develop and practice to be ethical in life:

(a) Be trustworthy
(b) Have respect for others
(c) Own responsibility
(d) Be fair in dealings
(e) Be caring towards well being of others
(f) Prove to be a good citizen — through civil virtues and duties

Key Terms

Social responsibility	Water pollution	Business ethics
Environment	Noise pollution	Legal responsibility
Environmental protection	Air pollution	Ethics
Pollution	Land pollution	Code of ethics

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 maximisation 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.

Business and environment protection: Protection of the environment is a serious issue that confronts managers and decision makers. The environment is defined as the totality of man's surroundings — both natural and man-made. Pollution — the injection of harmful substances into the environment is, in fact, largely the result of industrial production. Pollution has harmful effects both for human life and the life of other species.

Causes of Pollution: Among the various sources of pollutions, industry is a major generator of waste in terms of both its quantity and toxicity. Many business enterprises have been responsible for causing air, water, land and noise pollution.

Need for pollution control: Important reasons which make a case for pollution control are: (i) reduction of health hazards, (ii) reduced risk of liability, (iii) cost savings (iv) improved public image, and (v) other social benefits.

Role of business in environmental protection: Each member of society can do something to protect the environment. The business enterprises should, however, take the lead in providing their own solutions to environmental problems. Some of the steps that they can take are: top management commitment, clear-out policies and programmes, abiding by government regulations, participation in government programmes, periodical assessment of pollution control programmes, and proper education and training of concerned people.

Concept of business ethics: Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of socially determined standards of behaviour. Business ethics concerns itself with relationship between objectives, practices, and techniques and the good of society. Ethics is important for every business.

Elements of business ethics: An enterprise can foster ethics at the workplace by following basic elements of business ethics, such as (i) top management's commitment, (ii) publication of a establishment of compliance mechanism, (iv) involving employees at all levels and (v) measuring results.

EXERCISES

Multiple Choice Questions

1. Social responsibility is

   a. Same as legal responsibility
   b. Broader than legal responsibility
   c. Narrower than legal responsibility
   d. None of them

2. If business is to operate in a society which is full of diverse and complicated problems, it may have

   a. Little chance of success
   b. Great chance of success
   c. Little chance of failure
   d. No relation with success or failure.

3. Business people have the skills to solve

   a. All social problems
   b. Some social problems
   b. No social problems
   d. All economic problems

4. That an enterprise must behave as a good citizen is an example of its responsibility towards

   a. Owners
   b. Workers
   c. Consumers
   d. Community

5. Environmental protection can best be done by the efforts of

   a. Business people
   b. Government
   c. Scientists
   d. All the people

6. Carbon monoxide emitted by automobiles directly contributes to

   a. Water pollution
   b. Noise pollution
   c. Land pollution
   d. All the people

7. Which of the following can explain the need for pollution control?

   a. Cost savings
   b. Reduced risk of liability
   c. Reduction of health hazards
   d. All of them

8. Which of the following is capable of doing maximum good to society?

   a. Business success
   b. Laws and regulations
   c. Ethics
   d. Professional management

9. Ethics is important for

   a. Top management
   b. Middle-level managers
   c. Non-managerial employees
   d. All of them

10. Which of the following alone can ensure effective ethics programme in a business enterprise?

    a. Publication of a code
    b. Involvement of employees
    c. Establishment of compliance mechanisms
    d. None of them

Short Answer Questions

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

2. What is environment? What is environmental pollution?
3. What is business ethics? Mention the basic elements of business ethics.
4. Briefly explain (a) Air Pollution, (b) Water pollution, and (c) Land pollution.
5. What are the major areas of social responsibility of business?

Long Answer Questions

1. Build up arguments for and against social responsibilities.
2. Discuss the forces which are responsible for increasing concern of business enterprises toward social responsibility.
3. 'Business is essentially a social institution and not merely a profit making activity'. Explain.
4. Why do the enterprises need to adopt pollution control measures?
5. What steps can an enterprise take to protect the environment from the dangers of pollution?
6. Explain the various elements of business ethics.

Projects/Assignment

1. Develop and put in writing a code of ethics for use in the classroom. Your document should include guidelines for students, teachers, and the principal.
2. Using newspapers, magazines and other business references, identify and describe at least three companies that you think are socially responsible and three that you think are socially irresponsible.