

Chapter 6: Social Responsibilities of Business and Business Ethics

NCERT · Class 11 · Business Studies

Textbook exercises

Question 1

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

Solution

Ans: Social responsibility is an ethical paradigm that implies that an entity, whether an organization or an individual, has a responsibility to behave in the best interests of society as a whole. Every individual has a responsibility to fulfill in order to maintain a balance between the economy and the ecosystems.

Difference between Social and Legal Responsibility is:

Basis	Legal Responsibility	Social Responsibility
Scope	Under any law, act, or constitution, legal responsibility is required. It is comparatively a narrower term.	Social responsibility is a broad term that refers to a company's obligation to society and the environment.
Obligation	Legal responsibility is obligatory.	Social responsibility is voluntary.
Legal action	Legal action can be taken against those who do not uphold their legal obligations.	There are no penalties for organisations that do not uphold their social responsibilities.

Question 2

What is environment? What is environmental pollution?

Solution

Ans: The whole of man's surroundings, both natural and manmade is characterised as the environment. These surroundings also include resources that are beneficial to human life.

Environmental Pollution is when there are undesirable changes in the surrounding that have harmful effects on plants and animals. Pollution alters the physical, chemical, and biological properties of the atmosphere, land, and water. Because the environment can only absorb a certain quantity of pollutants and wastes, pollution exists.

Question 3

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

Solution

Ans: Ethics is concerned with determining what is acceptable and wrong in human behaviour based on a standard form of individual conduct/behaviour as approved by society in a particular sector of activity. The relationship between company objectives, procedures, and processes and the good of society is the subject of business ethics.

Elements of business ethics are:

- Top management's commitment,
- Publication of code
- Establishment of compliance mechanism,
- Involving employees at all levels
- Measuring results.

Question 4

Briefly explain

(a) Air pollution

(b) Water pollution

(c) Land pollution.

Solution

Ans: Air pollution is the pollution in the air which is primarily due to carbon monoxide emitted by automobiles, as well as smoke and other chemicals emitted by manufacturing industries. As a result of the pollution, a hole in the ozone layer has formed, causing severe global warming.

Ans: Chemicals, industrial waste, and trash dumping are the main sources of pollution in water. It has killed a number of animals and poses a severe threat to human life.

Ans: Land contamination occurs when toxic wastes are dumped on it. This degrades the land's quality, rendering it unsuited for agriculture or planting.

Question 5

What are the major areas of social responsibility of business?

Solution

Ans: Social responsibility is an ethical paradigm that implies that an entity, whether an organization or an individual, has a responsibility to behave in the best interests of society as a whole. Every individual has a responsibility to fulfil in order to maintain a balance between the economy and the ecosystems.

The major areas of social responsibility of business include the following:

- Economic Responsibility

The primary social obligation of a business enterprise is the economic responsibility, i.e., to produce things and services that society desires and sell them for a profit.

- Legal Responsibility

Every business has a legal obligation to follow the rules of the land. A business who abides to the laws and regulations of the country, is also a socially responsible business.

- Ethical Responsibility

Described as socially acceptable behaviour that is not codified in legislation. This job requires some volunteer participation.

- Discretionary Responsibility

It is the responsibility of the company to protect the capital investment by avoiding speculative activity and engaging in only healthy business initiatives that provide good returns on investment, such as charities, donations etc.

Question 6

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

Solution

Ans: CSR is a self-regulatory company model that strives to contribute to social goals, such as volunteering or ethically-oriented actions. It establishes a company's social responsibility and accountability. This accountability is towards itself, its stakeholders (i.e., the people who have an interest in the life of a corporation including shareholders, creditors, consumers, competitors, workers, government and society at large).

Question 7

Build up arguments for and against social responsibilities.

Solution

Ans: The arguments for social responsibilities are:

Arguments for Social Responsibility

- Protect the interest of stakeholders:

It has become critical for businesses to fulfil their obligations to their employees in order to win their support. The consumer does not purchase the product that is being offered to him. He buys exactly what he wants. Businesses have been compelled to adopt social responsiveness toward their

customers as a result of greater customer awareness. As a result, keeping social obligations is beneficial to a company's long-term viability.

- Long-run survival:

When a company's primary purpose is to provide "service to society," it and its image stand to profit the most in the long run. If a company performs its social obligation, it benefits itself. Also the image of the firm in the eyes of the people also improves, when the firm fulfils social goals.

- Self-enlightenment:

Businesses are motivated to work for the greater good as their degree of knowledge and understanding of their role as society's creators increases. Managers adopt and follow voluntary moral and social responsibility norms, which help to shape public expectations. Hence, firms assume social responsibility on their own, rather than as a result of legislative intrusion.

- Avoids government regulation:

Regulations from the government are unwelcomed since they restrict one's freedom. Businessmen are thought to be able to escape the problem of government restrictions by voluntarily taking on social duties, hence reducing the need for new legislations.

The Central Pollution Control Board, for example, is in charge of environmental pollution issues.

- Resources:

Business organizations have vast resources that can be leveraged to help solve societal problems in part. Therefore, given the vast financial and personnel resources at its disposal, a firm can assist society in better addressing its problems. Also, businesses are the result of society's creation, and they must act in its best interests, both economically and socially.

- Holding business responsible for social problems:

Businesses have either generated or perpetuated social problems. Therefore, instead of ignoring these issues, businesses have a moral obligation to be actively involved in their solution rather than only anticipating that they will be dealt with by other social agencies.

- Converting problems into opportunities:

By accepting the challenge, business, which has a history of turning difficult situations into profitable agreements, may not only alleviate societal problems, but also make them successfully helpful.

Arguments Against Social Responsibility:

- **Violation of profit maximisation:**
Profit maximisation is the sole purpose of business. As a result, any discussion of social responsibility is incompatible with this goal. Profit maximisation through higher efficiency and lower costs is the best way for business to fulfil its social obligation.
- **Burden on consumers:**
Pollution management and environmental preservation are expensive social duties that frequently necessitate large financial investments. Instead of carrying the burden of social duty, business people tend to simply pass it to their customers by demanding higher costs.
- **Lack of social skills:**
Business people lack the essential knowledge and training to solve social issues. Instead, other specialized agencies need to deal with social issues.
- **Lack of broad public support:**
Business engagement or meddling in social programmes is disliked by the general public. As a result, business cannot thrive due to a lack of public trust and collaboration in resolving social issues.

Question 8

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

Solution

Ans: The forces responsible for increasing concern of business enterprises towards social responsibility are:

A. Threat of public regulation:

- To protect the public's interests, actions are taken to control business enterprises that operate in a socially irresponsible manner.
- One of the main reasons why businesses are concerned about social responsibility is the fear of government regulation.

B. Pressure of labour movement:

- The labour movement has grown in strength around the world in order to extract gains for the working class.
- This has compelled businesses to consider the welfare of their employees rather than employing a "hire and fire" policy.

C. Impact of consumer consciousness:

- With the advancement of education and mass media, as well as increased market competition, the customer has become more aware of his rights and powers in influencing market dynamics.
- Now that the consumer is king, businesses have begun to take a customer-centric approach.

D. Development of social standard for business:

- New social standards recognise corporate firms' economic activity as acceptable, but only if they also serve social requirements.
- There is no way to run a business without interacting with the rest of the world.

E. Development of business education:

- The expansion of business education, with its strong social responsibility content has increased public awareness of business's social mission.

F. Relationship between social interest and business interest:

- Social and business goals are no longer mutually exclusive, according to business enterprises. Infact, they are a good match for each other.
- The long-term benefit of business is in providing good service to society.

G. Development of professional, managerial class:

- Professional management education at universities and specialized management schools has resulted in the formation of a distinct class of professionals.
- Professional managers are more concerned with fulfilling a variety of societal interest groups than with simply meeting profit targets when it comes to running their businesses successfully.

Question 9

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

Solution

Ans: Profit is the driving force behind any business. This is due to the fact that profit is both a metric of performance and the primary source of revenue for a business. In addition, earnings are frequently utilised to fund a company's expansion plans.

Business firms, on the other hand, are claimed to be more than profit-making organisations because:

- Social Institutions: They are considered as social institutions, because society contributes towards the success of a business.
- Societal Resources: As every business makes use of society's resources in terms of human and physical capital, so wastage of time, money ,and manpower should be minimized.
- Business needs consumers: Business cannot work without consumers, so the business needs consumers to buy its products or services. It needs to maintain a good relationship with its consumers so that it can smoothly conduct business.

Thus, it becomes important that business should do something for society in return. As a result, we refer to a corporate firm as a social institution rather than a profit-making corporation.

Question 10

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

Solution

Ans: Business enterprises need to take suitable measures for pollution control not merely to protect the environment, but also to enjoy other benefits which are:

- **Reduction of health hazards:**
Many ailments, including cancer, heart attacks, and lung difficulties, are increasingly being linked to environmental contaminants.
- **Reduced risk of liability:**
It is conceivable for a company to be held accountable for compensating people who have been harmed by the toxicity of gaseous, liquid, or solid pollutants it has released into the environment. To avoid the possibility of responsibility, businesses must install pollution control systems on their premises.
- **Cost savings:**
Cost reductions are especially obvious when faulty manufacturing technology produces more trash, resulting in higher waste disposal and facility cleaning costs.
- **Improved public image:**
A company that promotes environmental causes will have a positive reputation and be seen as a socially responsible business.
- **Other social benefits:**
Controlling pollution has a number of other advantages, including improved visibility, cleaner buildings, a higher quality of life, and the availability of natural resources in their purest form.

Question 11

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

Solution

Ans: The steps which can be taken by business enterprises for environmental protection are:

- A firm commitment from the company's senior management to create, maintain and develop a work culture that promotes environmental protection and pollution prevention.
- Ensuring that all divisions and employees share the company's commitment to environmental protection.
- Creating defined policies and programmes for acquiring high-quality raw materials, using advanced technology, applying scientific waste disposal and treatment procedures, and improving employee skills in order to reduce pollution.

- Adherence to the government's pollution-prevention rules and regulations.
- Participation in government programmes aimed at preventing deforestation, managing dangerous substances, cleaning up dirty waterways, and planting trees.
- Periodic evaluation of pollution control programmes in terms of costs and benefits in order to improve environmental protection efforts.
- Organizing educational workshops and training materials to share technical knowledge and experience with suppliers, dealers, and customers in order to engage them in pollution control programmes.

Question 12

Explain the various elements of business ethics?

Solution

Ans: Elements of business ethics are:

Elements of Business Ethics

- Top management commitment
Top management plays a critical role in steering the entire organization toward morally sound behaviour. They must provide ongoing leadership in defining and upholding the organization's values.
- Publication of a 'Code'
Defining the principles of conduct for the entire organization in the form of written papers known as the "code." This includes topics such as basic honesty and obedience to regulations, product safety and quality, workplace health and safety, conflicts of interest, and employment practises, among others.
- Establishment of compliance mechanisms
Appropriate measures should be implemented to guarantee that real decisions and actions correspond with the firm's ethical standards.
- Involving employees at all levels
Because it is the employees who at all levels execute the policies relating to ethics and make ethical business a reality. Hence, their participation in ethics programmes becomes essential.

- Measuring results

While it is difficult to accurately quantify the ultimate benefits of ethics programmes, organizations can audit to ensure that ethical standards are being followed. The results should then be discussed by the top management team and other staff to determine the next course of action.

Question 13

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

Solution

Ans: In general, corporate social responsibility refers to a company's responsibilities and obligations to society. Companies with an

- Annual revenue of Rs. 1,000 crore or more,
- Net worth of Rs. 500 crore or more, or
- Net profit of Rs. 5 crore or more

are subject to the Companies Act, 2013 (under Clause 135), which governs corporate social responsibility in India.

The following recommendations will help you understand the definition of CSR under the Companies Act of 2013:

- Companies must have a Corporate Social Responsibility committee consisting of three or more members of the board of directors, including at least one independent director.
- In order to comply with the Corporate Social Responsibility Policy, firms must invest at least 2 percent of their average net earnings over the previous three financial years.
- In India, companies should only engage in CSR initiatives that are outlined in their Corporate Social Responsibility Policy, which is based on the recommendations of the Corporate Social Responsibility Committee.
- The activities that a firm may engage in as part of CSR should follow the guidelines laid out in Schedule VII of the Act.
- Activities that are only for the benefit of the organization's workers or their families will not be deemed CSR.

Question 14

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.

Solution

Ans: Students:

Ethical principles that guide our work as student are:

- **Autonomy:** We understand the necessity for students to become more self-reliant in order to achieve autonomy. Students gain more confidence and self-direction as their sense of self becomes clearer. Students must respond to the following question: "What does it mean to be self-sufficient and responsible?"
- **Prevent Harm:** Second, we must avoid injury as a result of this heightened sense of autonomy. Individuals and groups are protected by safety regulations (such as Community Standards), and safety preparations (such as fire drills) are in place to respond to potentially dangerous circumstances.
- **Do Good:** However, preventing damage is not the goal; we want to give people the chance to do good. Student Life encourages healthy role modeling, direction, and leadership. Students can participate in a variety of student groups, clubs, and activities that contribute to vibrant campus life.
- **Justice:** When we interact on campus, we treat each other with fairness. Professionals in Student Life value fairness; we maintain impartiality in our perceptions of one another despite the fact that individuals differ.
- **Fidelity:** We also recognize the importance of trust in the development of partnerships. Our dedication to secrecy, expertise, and understanding of our skills and limitations represent our fidelity. When dealing with delicate situations, both professors and students must embrace trust and secrecy to be most effective.

Teachers:

Teachers are officially licensed professionals who uphold DIGNITY and REPUTATION, as well as strong moral ideals and technical and professional competence, in the conduct of their noble profession, and they adhere to a set of ethical and moral principles, norms, and values.

Following are the ethics for the teachers:

- Upholding the teaching profession's grandeur and dignity.
- Develop professionally in order to enhance efficiency.
- All school authorities, instructors, and staff members must treat one another with professional respect, helpfulness, and sympathy, and
- Teaching students without favoritism, and respecting their individuality.
- Refraining physical and verbal abuse towards the students.

Following are the ethics for the Principal:

- Maintaining pleasure in work.
- Respecting the rights of teachers and the students.
- Every educational institution must provide high-quality education to all qualified instructors.
- Promoting an environment of fair pay, and work-life balance.
- Demonstrate shared accountability for system improvements at all levels.

Question 15

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.

Solution

Ans: Three firms that struck out as outstanding examples of how social responsibility can be successfully combined with smart tactics to develop goodwill while establishing long-term and spectacular enterprises, in my opinion.

- Vodafone

Vodafone said in April that by increasing the energy efficiency of its worldwide mobile-phone networks, it will be able to decrease carbon dioxide emissions in half by 2020. Vodafone gets bonus points for CSR since they keep us updated on the campaign's progress, whether it's going well or poorly.

Future pledges include committing to recycling 95 percent of network equipment trash and a 10-percent reduction in work-related incidents that result in lost time. Furthermore, Vodafone is a market leader in socially conscious goods such as text-to-speech software for the blind and elderly-friendly phones.

- The Body Shop

The Body Shop is regarded as one of the forerunners in the field of modern corporate social responsibility. Anita Roddick, the company's founder, encouraged her employees to speak up for their values and support issues including self-esteem, environmental preservation, animal rights, community trade, and human rights.

In 1985, they collaborated with Greenpeace to collect more than 4,000,000 signatures opposing animal experimentation in the European Union, which was one of their greatest accomplishments. They've also made a substantial contribution to the causes they support, demonstrating how others may do the same.

- Starbucks Coffee

Starbucks Coffee has strived to operate responsibly and ethically since its inception in 1971. One of their main objectives is the cultivation of green coffee in a sustainable manner; C.A.F.E.

To attain product quality, economic accountability, social responsibility, and environmental leadership, the project follows a set of principles. Furthermore, the firm is a supporter of Ethos Water, a company that provides clean water to over 1 billion people who do not have it.

Following are the three companies that are socially irresponsible:

- British American Tobacco

British American Tobacco (BTI) is a global leader in cigarette sales, with operations in 180 countries and a history spanning more than a century, dating back to 1902. BTI, being a "Big Tobacco" company, is no new to facing criticism and reaction over its products, which include Dunhill, Kent, Lucky Strike, and Pall Mall. While defending the company's product portfolio from a health standpoint may be difficult, if not impossible, its viability as a solid investment is clear. Since 1980, BTI has returned more than 8,000 percent.

- McDonald's

Despite the high calorie content, everyone enjoys a snack of fries and a Big Mac once in a while, so it's no wonder that this fast food behemoth has made the "bad for your health" list. McDonald's (MCD) has over 35,000 outlets globally, and while actively expanding its menu in recent years to include healthier options such as salads, salmon, and smoothies, the firm still has a "junk food" reputation. The stock's record, on the other hand, has been nothing short of spectacular: MCD has returned more than 27,000 percent since 1970, and the business has boosted dividends for 38 years in a row.

- Coca-Cola Co.

With that burger, how about a drink? Coca-Cola (KO) is one of the most well-known brands in the world, yet it's difficult to argue that its drinks are healthy. You might be shocked to find that Coca-Cola owns over 500 nonalcoholic beverage brands, ranging from waters to juices to sports drinks, in addition to its most well-known beverage, Coca-Cola.

Over the long run, KO has beaten the S & P 500 by a wide margin, gaining well over 34,000 percent since 1962, compared to the overall market's return of less than 3,000 percent.

So despite being socially irresponsible, the above three companies are making high profits.

Question 16

Choose a company and prepare a report on Corporate Social Responsibility undertaken by it.

Solution

Ans: So we will see a report on the company, Johnson & Johnson.

Corporate social responsibility (CSR) taken by it are:

Johnson & Johnson, a large pharma pioneer, is an outstanding illustration of CSR in action. For the past three decades, they have worked on decreasing their environmental effect. Their projects span from harnessing the wind's energy to delivering clean water to people all around the world. With the purchase of a privately held energy supplier in the Texas Panhandle, the firm was able to minimise pollution while also providing a renewable and cost-effective alternative to power. The firm is continuing to look for renewable energy sources, with the objective of meeting 100 percent of its energy demands by 2026.

