COMMERCE

GRADE XII – Mumbai Board

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ORGANISATION OF COMMERCE AND MANAGEMENT

6

Social Responsibilities of Business

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6 SOCIAL RESPONSIBILITIES OF BUSINESS

Important points to learn:

1) Social Responsibility – Concept & Need
2) Responsibility towards Different Interest Groups
   Owners | Investors | Employees | Consumers | Government | Society
3) Social Responsibility towards Protecting the Environment
4) Business Ethics – Concept and Features
5) Corporate Social Responsibility (CSR)

Please Note:
These notes are general guidelines only for reference, for the students of SRK/MBBI Junior College, Dahanu. ***For detailed notes, students should refer only the prescribed textbook of the Maharashtra State Bureau of Textbook Production and Curriculum Research.*** *This study material is for learning purpose during lockdown.*

SOCIAL RESPONSIBILITY

No business exists in isolation. Every organ of the society contributes towards the success of a business. Thus, it becomes important that business should do something for the society in return. **This responsibility of business towards the society is called social responsibility.**

A socially responsible firm should not work solely for profit maximisation but should also seek the welfare of different sections of the society.

Concept

Social responsibility of business refers to its obligation to take such decisions and actions so that all the activities of business should be performed in such a manner that they will not harm any part of society rather they will protect and contribute to the interest of society.

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 the firm's recognition of social obligations even though not covered by law.

Need for Social Responsibility

Business organisation is run by profit motive but profit maximisation should not be the sole aim. Commitment to society is also important.

1. **Concept of Trusteeship -** Businessmen are considered to be trustees of society.
2. **Changing expectations of society -** Today society expects business to be a responsible citizen and contribute towards social welfare.
3. **Reputation -** A socially responsible company enjoys a good reputation in the society.
4. **Protection of Environment –** Environ. Degradation & Resource Depletion should be avoided.
5. **Optimum Utilisation of Resources (OUR) -** Wastage of resources should be avoided by OUR.
6. **Government Control -** Government have enacted various laws. This has put moral as well as legal pressure on business.
7. **Growth of Consumer Movement –** Education and Social Media have made consumers conscious of their rights and powers in determining market forces.
8. **Long term Self Interest -** A firm and its image stands to gain maximum profits in the long run when it has its goal as 'service to society‘.
9. **Role of Media –** Media can influence masses in society. Media can raise voice against business malpractices and exploitation of consumers.

Responsibility Towards Different Interest Groups

Business cannot function in isolation. It depends upon the society. It is conducted with the help of various interest groups such as investors, owners, employees etc. Interest of all these should be balanced and properly protected.

1) Responsibility towards the Owner/s:

Owners are the persons who own the business and they are responsible for the profits or losses and they contribute the capital and bear the risks.

a) Reasonable Profit - Owners' funds must be utilized in the best possible manner. It should give short term & long term returns in time. Profit facilitates growth, expansion & financial stability.

b) Exploring Business Opportunities - Opportunity is the scope available for business unit to expand, grow and diversify the business, important for the success of the business.

c) Optimum Use of Capital - Available capital should be used carefully and efficiently.

d) Minimise Wastages - Maximise profit by minimising wastage of time, money, manpower, etc.

e) Expansion and Diversification - Business should grow & develop by undertaking R&D.

f) Create Goodwill - A well reputed company commands a lot of respect and trust in the market.

Responsibility Towards Different Interest Groups

2) Responsibility towards the Investor/s:

Investors provide finance to the company. They are creditors of business.

a) **Return on Investment –** Investors should get fair returns on investment regularly in the form of interest.

b) **Maintain Transparency –** There should be high degree of transparency in business operation.

c) **Disclosure of Information –** Investors should be presented with full and factual information.

d) **Conduct of Meetings –** Company should call meetings of investors and provide information about the business.

e) **Solvency and Prestige -** Business should maintain sound financial position, solvency, prestige and goodwill to satisfy investors.

f) **Handling Grievances –** The Company should handle investor's grievances, if any. There should be effective methodology for this. All queries regarding any other issue must be answered in a satisfactory way.

Responsibility Towards Different Interest Groups

3) Responsibility towards the Employees:

Employees are human resource to the organization and must be treated with dignity & respect.

a) Job security – Security of job provides mental peace and employees can work with full dedication and concentration. Job Commitment helps to raise their morale and loyalty towards the organisation.

b) Fair Remuneration – Employees must get fair and attractive salaries.

c) Good Working Condition – Good working conditions like lightening, water, etc. must be given.

d) Education and Training – Organisation should make every possible attempt to educate employees. Guidance and methods of training depends on the nature of job.

e) Promotion and Career Opportunities - Business should offer adequate opportunities of promotion to their talented employees based on their skills, experience, qualification, etc.

f) Workers Participation in Management – The workers must be encouraged to take part in management by forming workers committee. Suggestion schemes, profit sharing can be encouraged by management.

Responsibility Towards Different Interest Groups

4) Responsibility towards the Consumers:

The consumer is the king of the market. Business cannot work without consumer.

a) Good Quality Products – The organization should produce quality goods. International Standard Organization (ISO), is the latest trend towards quality control.

b) Fair Prices – The consumers should not be cheated by charging high prices. Retailer should not charge any extra amount, over and above MRP.

c) Consumer Safety – The business must ensure that the product supplied will not adversely affect the life and health of the customers. Unsafe products should not be marketed.

d) Ethical Advertising – The organization must be sure that the advertisement is not being misleading. False, misleading and vulgar advertisement should be avoided.

e) After Sales Service - Efficient and effective after sale service helps to establish good relation between the consumers and the organisation.

f) R & D – Organization should conduct research and development to improve the quality of goods and to reduce the cost of production. This will minimize final prices charged to consumers. It must provide quality standards such as BIS or AGMARK on respective products.

Responsibility Towards Different Interest Groups

5) Responsibility towards the Government:

Government safeguards the interests of the consumers & provides incentives to the business.

a) Observing Rules and Regulations – The business should follow the laws regarding obtaining license, the operation of the business, etc. They should conduct business in lawful manner.

b) Timely Payment of Taxes – Business units should pay these taxes from time to time. It would be difficult for the government to undertake development projects without availability of funds.

c) Earning Foreign Exchange – The government business organization to earn foreign exchange by exports. The government requires this foreign exchange for importing various goods.

d) Economic Development – The government sets the targets for balanced and rapid economic development of the country. The business organization should provide necessary cooperation.

e) No favours - The commercial organization should not take any favour from the government officials by bribing or influencing them.

f) Suggestions to the Government – The business organisation can provide suggestions to the government before framing important policies such as Industrial Policy, Import Export (EXIM) Policy, etc. Such suggestions are helpful for framing organisation-friendly policies.

Responsibility Towards Different Interest Groups

6) Responsibility towards the Community /Society/ Public in General:

Business organization has certain responsibilities towards the society at large.

a) Protection of Environment – Pollution is the major problem of present times. business organization should take all possible measures to minimize pollution.

b) Better and Maximum Use of Resources – The business organization should make proper and optimum use of scarce resources. The resources like fuel, water, etc. must be used efficiently.

c) Employment Generation – Business should provide large employment opportunities for all sections of the society. It can be done through expansion and diversification programmes. Such effort will help to solve the problem of unemployment, poverty in the society.

d) Reservation for Weaker Section – The organisation is expected to reserve certain positions for economically weaker sections of the society to lift them up.

e) Development of Backward Regions – A business organization should be started in backward areas thus creating employment opportunities & helping backward regions to develop.

f) Financial Assistance - The society expects business organization to provide financial help to various awareness programs and social causes eradication of poverty, anti-drug campaigns, etc.

Social Responsibility Towards Protection of the Environment

Business should be committed to protect and promote environment. Business uses all types of resources from nature, so it is an obligation to protect the environment. It should not create imbalance in nature.

Industrialisation results in environmental pollution by generating hazardous waste and has increased the risks to environment. Environmental issues like loss of bio-diversity, mass-scale pollution of natural resources, etc. are the main issues.

Effect of Business Activities on Environment

1) Air Pollution
2) Water Pollution
3) Sound Pollution
4) Electronic Garbage

Protection of environment benefits business from many angles such as creating awareness among customers, employees, saving costs, loss govt. control etc.

The number of waste prevention techniques are available and they are commonly summarized as the so called 4 'R's i.e. **R**educe, **R**euse, **R**ecycle and **R**efuse.

6 SOCIAL RESPONSIBILITIES OF BUSINESS

Business Ethics

The word 'Ethics' is derived from the Greek word 'Ethos' which means character. Ethics means the set of rules and principles one should follow while performing his/her duties.

Business ethics refer to a code of conduct that businesses are expected to fo1low while doing a business. Ethics deals with concepts such as right and wrong, good and bad, fair and unfair just and unjust, legal and illegal, proper and improper in respect of human actions. ***Ethics is a branch of social science.***

Moral and Social Values

Our values are important because they help us to grow and develop. The decisions we make are reflection of our values and beliefs and they are always directed towards a specific purpose.

Values form an important part of the culture of the society. They provide general guidelines for social conduct.

Moral Values are based on perceptions of right and wrong whereas social values may also include ideas about things being socially acceptable. **Social Values** are often based on tradition, ego, honesty, integrity fairness, hard work, cooperation, forgiveness, never hurt anyone etc.

Features of Business Ethics

a) Code of Conduct – Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

b) Based on Moral and Social Values – It contains moral and social principles for doing business. This includes self control, consumer protection and welfare, service to society, fair treatment to social group, not to exploit others etc.

c) Gives protection to social groups – Business ethics give protection to different social groups such as consumers, employee small businessmen, government, shareholders, creditors etc.

d) Provides basic framework – It gives the social, cultural, economic, legal and other limits of business. Business must be conducted within these limits.

e) Voluntary – The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

f) Relative Term – Business ethics is a relative concept. It changes from business to business. It also changes from one country to another. What is considered as good in one country may be banned in another country.

g) Requires education and guidance – Businessmen must be given proper education and guidance before introducing business ethics. The businessman must be motivated to implement business ethics.

CORPORATE SOCIAL RESPONSIBLLTY (CSR)

Corporate Social Responsibility (CSR) is not a new concept in India. However, the Government of India has recently notified the Section 135 of the Companies Act, 2013 which makes it mandatory for certain companies to comply with the provisions relevant to CSR.

CSR is self-regulating business model, aims to contribute towards society goals or support ethically-oriented practices. It makes a company socially responsible and accountable.

Applicability of CSR

- The companies having Net worth of 1500 Cr. or more or Turnover of 1000 Cr. or more; or Net Profit of 15 Cr. or more during any financial year shall be required to constitute a Corporate Social Responsibility Committee.
- All companies shall spend, in every financial year, at least ***2% of the average net profits of the company made during the three immediately preceding financial years***, in pursuance of its Corporate Social Responsibility Policy.
- The companies shall be required to incorporate in its Board's report, an annual report on CSR.

CORPORATE SOCIAL RESPONSIBLLTY (CSR)

CSR Activities

The Policy states that Corporate Social Responsibility is a commitment to support initiatives that improve the lives of underprivileged by one or more of the following activities:

- Eradicating hunger, poverty & malnutrition, sanitation & making available safe drinking water.
- Promoting education, including special education & vocation skills especially among children, women, elderly & the differently-abled.
- Reducing child mortality and improving maternal health by providing good hospital facilities and low cost medicines.
- Ensuring environmental sustainability, ecological balance, protection of flora & fauna, conservation of natural resources and maintaining quality of soil, air & water.
- Measures for the benefit of armed forces veterans, war widows & their dependents.
- Training to promote rural sports, nationally recognized sports.
- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government.
- Slum Area Development
- Rural Development Projects, etc.

CORPORATE SOCIAL RESPONSIBLLTY (CSR)

Penalties for non-complying the duty of CSR would

- Attract a fine of not less than Rs. 50,000 which may extend to Rs 25,00,000; and
- Every officer of the company in default shall be punishable with imprisonment for a term which may extend to 3 years; or
- With fine which shall not be less than Rs 50,000 which may extend to Rs 5,00,000 or with both.

********* End of Chapter 6*********

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