**SEMESTER 6th (UG)**

**Subject: BUSINESS ENVIRONMENT**

**Unit II SOCIAL RESPONSIBILITY OF BUSINESS**

**INTRODUCTION**

Business is a part of society Business depends upon society for inputs like men, 'honey and skills. Business has certain responsibilities towards society. Business comes in contact with various groups of society such as owners, workers, customers, government, suppliers. etc. These days the aim of business is no longer only profit maximization but also to be socially responsible. Since a business enterprise makes use of resources of society for its functioning therefore it should perform its duties and responsibilities in improving the welfare of the society Social responsibility refers to the obligations and duties of the business towards the society.

The nature of social responsibility of business may be classified in categories

I. The manner in which a business carries out its own Business activities.

2. The welfare activities that it takes upon itself as an additional function.

According to H.R. BOWEN, "Social responsibility is to pursue those policies and decisions or to follow those lines of actions which are desirable in terms of its objectives and values of our society ".

Business is not only a profit making occupation but also a social function which involves certain duties. The shareholders, suppliers, employees, local community and society are affected to a large extent by the way in which the enterprise functions.

Owners

Suppliers

Employees

Business

Community

Consumers

Environment

Government

**SOCIAL RESPONSIBILITY OF BUSINESS TOWARDS DIFFERENT SECTIONS OF SOCIETY**

Business depends on society for inputs like money, men, skills and the market: -\*here products have be sold. The business depends on society for its existence, sustenance and growth. Being so much dependent on society, the business also has a definite responsibility towards different segments of society.

A business is responsible to safeguard the interest of following sections :

**I. Towards owners or shareholders :**

1. To safeguard the capital.

2. To provide fair and regular return on the capital employed.

3. Consolidating the financial position of business.

4. To ensure proper utilization of invested capital.

5. Timely payment of dividend.

6. Guaranteeing capital appreciation.

7. To provide regular and factual information about the company.

**II. Towards Employees :**

The success of organisation depends upon the morale of its employee, and their co-operation.Responsibility of business towards employees is in the following forms:

1. Proper selection, training and promotion.

2. Providing fair wages.

3. Ensuring health, safety and comfortable working conditions.

4. Education of employees.

5. Participative management.

6. Providing an efficient complaint handling system.

**III. Towards Consumers**

1. To produce and supply quality products at reasonable rates.

2. To provide goods in time and also efficient after sales services.

3. To manufacture the product according to the needs of customers and also disseminate complete information about it.

4. To avoid misleading the consumer by wrong claims or improper advertising of the products.

5. To provide opportunity to consumers for making complaints and to handle the genuine complains.

6. To take proper steps to prevent black marketing and profiteering by middle men.

7. To prevent formation of monopolies which tend to exploit customers.

In order to protect consumer rights, the concept of consumerism has developed recently.

**IV. Towards Government :**

I. To comply with all legal requirements.

2. Honest payment of taxes in time.

3. Executing government contracts in a fair manner.

4. To provide inputs to government about changes in policy that can result in growth and development.

**V. Towards Suppliers :**

1. Business should develop and maintain healthy relations with suppliers.

2. Dealing with suppliers should be based on fair terms and conditions, payment to suppliers should also be made on time.

**VI. Towards Community:**

A business also has responsibility towards the local community in which it operates and also to the society in which it survives:

1. To provide pollution free environment.

2. Contribute to the overall development of local community.

3. Development of backward areas.

4. Taking steps to preserve scarce resources.

5. Making contribution for social causes like education, health care and housing facilities for workers, etc.

6. Rehabilitating the population displaced by business units.

7. Dispose off the industrial waste carefully and recycling it if possible.

**Reasons for the development of social responsibility concept**

The concept of social responsibility has developed due to the following reasons

**1. Consumerism :** Growing consciousness amongst consumers about their rights, enactment of consumer goods and consumer protection laws, have forced the business to take care of consumers interest.

**2. Government interference :** Enactment of various acts like Companies Act, Factory Act, etc. have forced the business to consider social obligations.

**3. Trade unions :** The growing power of trade unions and labour laws have compelled the business to be concerned about labour welfare.

**4. Public opinion :** Public opinion and threat of government control have made the businessman responsible towards the society.

**5. Awareness :** The spread of education has made the organisations concerned about the quality of life. Organisations recognise that business is a reflection of social objectives and values and is an agency for promoting them.

**6. Professionalism :** In large business houses the ownership has been separated from managerial functions. The managerial functions now in professional hands. Well educated managers have knowledge about expectations of the society. Managers are no longer considered to have responsibility only to the owner but also increasingly being held responsible for the social effects of their actions.

**ARGUMENTS IN FAVOUR OF SOCIAL RESPONSIBILITY**

**1. Dependence of business on society :** A business is built by using resources like mines and minerals, farms and fields, agricultural products, rivers and forests, etc. A business operates by using resources from society and earns profit by selling the output to the society. In return it should also perform some duties for the society as well in the shape of social responsibility.

**2. Freedom from government control:** If a business performs its social responsibility properly, it will remain free from government punishments or penalities. Government regulations reduce flexibility and freedom of doing business.

**3. Public image :** Adopting social responsibility as an objective will help to improve the public image of business. A good public image is a valuable asset for the business. Some business houses enjoy good reputation because of their social involvement.

**4. To compensate for negative implications :** In order to compenstate the society for the negative implications of its actions, a business must take responsibility for its actions like factories which release dangerous fumes into natural environment and cause pollution. As the business houses are creating the problems of pollution, congestion, etc. they must also take the responsibility to handle these problems of the society.

**5. Long run profit :** The initial cost of performing a social task is high but in long run business can create a public image which is rewarded by shareholders, consumers, etc. Even providing welfare measures to workers will result in improved productivity and increase in sales.

**6. Huge financial resources :** Some of the business houses have huge financial resources at their disposal, which they can easily use for social projects and help the government with investments for socially needed projects.

**7. Consumer's conciousness :** As these days the consumers have become more conscious of their rights. In order to avoid conflicts with consumer associations, business units assume sena; responsibility and produce quality products.

**8. Better social environment**: In all the developing countries of the world education, health and employment are the major concerns Most of the developing countries are suffering from deficit and do not have adequate funds for investment in these areas. Business houses can serve the society by contributing towards health and development of infrastructure.

In the initial years an organization may have to bear the financial burden for meeting its social responsibility, but in the long run it helps the business by generating better public image, increase in sales, improved labour productivity.

**ARGUMENTS AGAINST SOCIAL RESPONSIBILITY OF BUSINESS**

1. **Ignoring the main objective :** The main objective of business is considered to be earning profits. If the business is adopting social responsibility then the manager’s time and effort may be diverted towards social action programs which can adversely affect the profit and interest of shareholders.
2. **Lead to increase in prices :** In order to perform social responsibility, the business has to incur some costs, there by increasing the cost of running the business operations. As this burden increase the cost of commodities it will ultimately have to be borne by the consumer in the form of increased prices.
3. **Overburden on business :** Business organisations are already serving the society by providing goods and services, generating employment, development technology, paying taxes and duties, etc. It is unfair to over-burden the business with other responsibilities like : social responsibility.
4. **Lack of competence in handing social activities :** Business managers have competenceand experience only in business activities but are not familiar with social affairs and luck social skills to discharge social responsibility.
5. **Lack of accountability :** Investment made for social purposes, may lack accountability from the business houses . Business divert funds allocated for social responsibility for business purposes. Charitable institutions associated with the business houses are also sometimes used as a mean of converting the black money into white.
6. **Need for profit maximization :** Though the modern business managements convey that the prime objective of the business is to serve the society yet economically the survival and growth of the business depends upon profit and any deviation from the same may only reduce the resources of firm.

**Social activities undertaken by some companies**

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| Company/Groups | Major Institutions established |
| TATA | • Indian Institute of Science MT  • Tata Memorial Center for Cancer Research  • Tata Energy Research Institute.  • Tata Institute for Social Sciences, etc. |
| BIRLA | • Birla Institute of Scientific Research  • BM Birla Heart Research Centre  •Birla Institutes of Technology, etc. |
| GODREJ | • Foundation for Medical Research  • Godrej Technical Institute, etc. |
| HERO | • Hero DMC Heart Institute  • BCM Arya Model Senior Secondary school |
| APEEJAY | • Apeejay Schools  •Medical Research Centre  • Institutes of management, etc. |

**SOCIAL AUDIT**

An important issue related to social responsibility of business is how evaluate the social performance. To assess the performance of the business in the field of social responsibility the technique of ‘Social Audit' is used. Social Audit implies a report on the performance of business as is social unit. It reflects on the social quality of life of the organization.

"A social audit is a systematic study and evaluation of an organisation's social performance."

Social audit is a tool for evaluating how satisfactorily a company has discharged it's social responsibilities. It enables the public as well as the company to evaluate the social performance of the company.

In other words, social audit involves :

1. Identification of the firm's activities having potential social impact;

2. Assessment and evaluation of the social costs and social benefits of such activities;

3. Measurement of the social costs and benefits; and

4. Reporting i.e. presenting the social performance of the firm in a proper format and manner.

**CHARACTERISTICS**

1. Social audit includes all those activities which have a significant social impact. These activities may relate to the consumers, employees,- environment or the society at large.

2. It is a process. It's aim is to determine what the organization is doing in social areas and is not concerned with the results from their social activities.

3. Social audit is a difficult task as the social performance is very difficult to measure.

4. Social audit uses both quantitative and qualitative data.

**IMPORTANCE/BENEFITS OF SOCIAL AUDIT**

Not long ago, many corporations saw investing in social good as a non essential or 'nice to have' and that it wouldn't affect business one way or another. However, there has been a monumental shift in this thinking and in the way organisations conduct business because of Corporate Social Responsibility (CSR). An important issue related to social responsibility is how to evaluate the social performance. To assess the performance of the business in the field of social responsibility, the technique of 'Social Audit' is used. Social audit enables the public as well as the company to evaluate the social performance of the company.

Following are the benefits of social audit

1. Social audit helps to boost the public image of the company. For example if a company publicizes doing green business without harming environment in any way or by opting eco-friendly procedure, then such positive reports increase attractiveness to investors improve relationship with stakeholders and decrease the risk of misconduct and adult, publicity.

2. Social audit helps company to achieve a balance between profits and ethics.

3. It helps the stakeholders in better understanding of the company's goals and operations.

4. Dialogues established with stakeholders during the audit process help the company to out how various stakeholders perceive it issues that could create threat for the company ,„ future and opportunities (or weaknesses) of which the company is not yet aware of.

5. Social Audit helps in building better relationships with investors, customers, supplier; regulators, media and the local community.

6. Social audit report helps the company in identifying potential risks and liabilities an improve its compliance with the law.

7. A number of external agencies make demand from the organisation for the informatics relating to the organisation.

8. It helps in preventing public relation crisis associated with ethical or legal misconduct.

9. It helps the company to find out how far the social objective have been achieved by it.