

## **Chapter 6**

### **Social Responsibilities of Business and Business Ethics**

#### **Multiple choice questions**

Q. 1 Social responsibility is

- A. Same as legal responsibility
- B. Broader than legal responsibility
- C. Narrower than legal responsibility
- D. None of them

Answer:

Social responsibilities of the companies are broader the legal responsibilities are companies are bound to follow certain social norms which are not covered under legal laws.

Q. 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.

Answer:

Society plays an integral role in the success of a business and business are more likely to survive when society has fewer problems.

Q. 3 Business people have the skills to solve

- A. All social problems
- B. Some social problems

C. No social problems

D. All economic problems

Answer: Business model can solve some social problems, some social problems like environmental pollution, child labour etc. requires government regulation and involvement to solve.

Q. 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

Answer:

enterprise is a part of society and it should behave as a good citizen of community, even when they are not directly related to its business.

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

A. Business people

B. Government

C. Scientists

D. All the people

Answer:

Some of the problems like environmental pollution, cleanliness requires combined efforts from all sections of society.

Q. 6 Carbon monoxide emitted by automobiles directly contributes to

A. Water pollution

B. Noise pollution

C. Land pollution

D. All the people

Answer:

Air pollution is a result of multiple sources of pollutions which releases harmful gases in an environment which lowers the air quality, carbon mono oxide released by vehicle is one such parameter which lowers the air quality.

Q. 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

Answer:

Control of pollution can result in all these. It saves the operating cost of the business, it reduces the liability of the business and reduces health hazard.

Q. 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

Answer:

Ethical business is more than business success or professional management or government regulations, ethical business is doing



business in a way which does not harm society and environment and hence it does maximum good to society.

Q. 9 Ethics is important for

- A. Top management
- B. Middle-level managers
- C. Non-managerial employees
- D. All of them

Answer:

Ethical business practices should be followed by everyone irrespective of their position in the organization.

Q. 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

Answer:

Involvement of employees in the ethical business programme is very important as it can ensure to implement ethical policies at different level in organization.

### **Short Answer**

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

Answer:



Social responsibility refers to the firm obligation toward the society which is not covered under any legal laws. These are the social obligation which voluntarily firm needs to fulfil and they are in desirable in terms of objective and values of our society which benefit the society.

Legal responsibilities are the different compliances which companies need to fulfil to operate the business.

Q. 2 What is environment? What is environmental pollution?

Answer:

The environment is defined as anything which human being, it includes both natural resources like land, water, air, fauna and flora and man-made cultural heritage socio-economic institutions etc. Pollutions refers to the injection of harmful substances into the environment which brings changes in physical-chemical and biological characters of air land and water. It harms the life of human being and other living species and wastes limited raw material resources.

Q. 3 What is business ethics? Mention the basic elements of business ethics.

Answer:

Ethics is a Greek word and it means norms ideals and morals in a group or society. Business ethics refers to the socially determined business principals which determines moral principles which should govern business activities

The basic elements are mentioned below:

- Top management commitment
- Publication of a 'Code'
- Establishment of compliance mechanism
- Involvement of employees at all levels
- Measurement of results



Q. 4 Briefly explain (a) Air Pollution, (b) Water pollution, and (c) Land pollution.

Answer:

- Air pollution- Certain human activities pollute the air by concentrations of harmful substances which is known as air pollution. For Example, carbon monoxide emitted by automobiles.
- Water pollution: Releasing of contaminants in water by human activities is known as water pollution. For example, dumping of waste in lakes, rivers and oceans from industries.
- Land pollution: Dumping of toxic chemicals on land and making it infertile for cultivation is land pollution

Q. 5 What are the major areas of social responsibility of business?

Answer:

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

- (a) Economic responsibility: As business is an economic firm producing goods and services that society wants and making a profit from it is economic responsibility
- (b) Legal responsibility: A law following firm are meant for the good of the society and is a legal responsibility.
- (c) Ethical responsibility: Respecting the religious sentiments and dignity of people while advertising for a product comes under ethical responsibility in business.
- (d) Discretionary responsibility. This is a voluntary work that an enterprise does for charity by constructing schools, hospitals or donating money during floods. Responsibility of the company is investing in good ventures which result in profit also comes under discretionary responsibility.

Q. 6 State the meaning of Corporate Social Responsibility as per the Companies Act 2013.

Answer:

Corporate Social Responsibility ensures that companies ethically conduct their business by taking account of their social, economic and environmental impact, and considering human rights. One of its examples is by Working in partnership with local communities

### **Long Answer**

Q. 1 Build up arguments for and against social responsibilities.

Answer:

#### Arguments for Social Responsibility

(i) Justification for existence and growth: Goods and services are provided by the business to satisfy human needs. Profit is important for business; it should be looked upon as a reward by people for the service. Business is possible only through continuous service to society. Hence, social responsibility provides justifications for the existence and growth of the business.

(ii) The long-term interest of the firm: Maximum profits by a firm, in the long run, is achieved when it has its highest goal as service to society. Increasing members of society including workers, consumers, shareholders, government officials, feel that business enterprise lacks its interest, they withdraw their cooperation from the concerned firm. Therefore, it is a firm that fulfils its social responsibility. The firm can improve its public image when it supports social goals.

(iii) Avoidance of government regulation: Government regulations are undesirable because they limit freedom of business. Therefore, by following social responsibility one can avoid government regulations.



(iv) Maintenance of society: Argument is that laws cannot be passed for all circumstances. People not getting their due from the business may resort to anti-social activities, not necessarily governed by the law which in turn harms the business. Hence, it is desirable that business enterprises should assume social responsibilities.

(v) Availability of resources with business: Business institutions have valuable financial and human resources which can be effectively used for solving problems is what this argument holds. For example, the business has a pool of managerial talent and capital resources, supported by years of experience in organizing business activities. Society can tackle its problems better if given proper finance and human resources at its disposal.

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

(vii) A better environment for doing business: For a business to operate in a society which has complex and diverse problems may have little chance of profit and success in the long run. Therefore, it is argued that the business should do something to meet its needs before it is confronted with a situation of its own survival in social environment endangered due to enormous social illnesses. Whereas, a society with fewer problems provides a better environment for business.

(viii) Holding business responsible for social problems: It is argued that some of the enterprises eternalize social problems. For example, Environmental pollution, unsafe workplaces, corruption, and discrimination at work. Therefore, it is important for the business to get involved in these and solve them at its earliest instead of expecting that other agencies will deal with them on their own.

Major arguments against social responsibility are:





(I) Violation of profit maximization objective: According to this argument, a business can best fulfil its social responsibility if it maximizes profits through increased efficiency and reduced costs for the people

(ii) Burden on consumers: It is argued that social responsibilities like pollution control and environmental protection are costly and require huge investments. In such a case, business turns the cost towards people by charging higher prices for the commodities. Therefore, in the name of social responsibility, it is totally unfair for the consumer to bear the tax and higher prices.

(iii) Lack of social skills: Solving social problems are totally different from solving business problems and it cannot be solved the way business problems are solved. Businessmen lack proper knowledge about it hence, different agencies should do this work.

(iv) Lack of broad public support: Business cannot operate successfully because of lack of public confidence and cooperation in solving social problems due to business involvement or interference in social programmes which is not liked by the public in general.

Q. 2 Discuss the forces which are responsible for increasing concern of business enterprises toward social responsibility.

The following forces are responsible for increasing concern of business enterprises toward social responsibility

Answer:

- Threat of public regulations - It is the responsibility of the government to take care of all section of society, if the government feel that companies are not working in a desirable manner and causing harm to society, they can regulate it.
- Pressure from labour movement - Labour movement has become very powerful to get their fair share. labour are now more



educated, well informed and organized in groups. Labour unions force the business to pay their dues for their welfare.

- Development of consumerism - Mass media, education and market competition have made the consumer aware about their rights which have forced a business to follow a customer-oriented approach. Now companies need to work more efficiently to produce a better product at reasonable rates
- Development of social standards- companies should not be only profit-making entities but should also serve social needs. for their long term growth and growth and existence, they require to fulfil the new standards of social welfare
- Development of business education- people need to be educated as consumers, investors, employee to become more sensitive towards social issues
- Relationship between social interest and business interest- companies cannot work in isolation from society, there needs to be a balance between both personal interest of the company and social interest for the long term.
- Development of professional, managerial class- professional and managerial class who manages business now is well-read and they have a positive view toward social welfare.

Q. 3 ‘Business is essentially a social institution and not merely a profit making activity’. Explain.

Answer:

Business is essentially a social institution and not merely a profit-making activity because it involves social responsibility. Social responsibility of a business refers to its obligation to make those decisions and perform those actions which are desirable in terms of the objectives and values of our society and business profits. The fact is that one of the most important recent changes in the attitude of businesspeople has been the realization that they have social obligations



to fulfil besides ensuring their own existence through profitable activity hence they think of maximization of profit which has to be done by abiding the laws of the government. As a business uses social resources such as human and physical capital and it cannot separate itself from society and the business shouldn't affect the lives of other people hence it is not merely a profit-making organization but a social institution.

Q. 4 Why do the enterprises need to adopt pollution control measures?

Answer:

They can certain measures which are mentioned below-

- Reduction of health hazard: Environment pollution causes a lot of diseases in people, by controlling pollution people can have a better healthy life.
- Reduced risk of liability: If the organization is found liable for causing environment pollution in any manner, like, releasing a chemical in water, or toxic air in the environment, the government can penalize the organization, by pollution control this liability can be reduced.
- Cost-saving - Pollution control saves the operating cost of the organization by reduces wastage and cost associated with the disposal of waste.
- Improved public image- Society is aware of the environment pollution and if a firm takes measure to protect the environment, it gets a good image in public.
- Other social benefits: Pollution control results in many other benefits like better quality of life, and the availability of natural products in a purer form.

Q. 5 What steps can an enterprise take to protect the environment from the dangers of pollution?

Answer:



Environment protection is very important for all sections of society a business enterprise plays an important role in the control of pollution. An organization can take the following steps to protect the environment

- Top management commitment - Top management needs to have a strong commitment toward creating, maintaining and developing work culture for environment protection
- Involving employees at all the levels: The commitment toward environmental protection needs to be shared throughout the enterprise by all the employees of all the divisions as they will implement all the programmes and policies toward environmental protection.
- Laying down policies for environment protection: organizations need to have clear cut policies for environment protection which includes the purchase of quality raw material which does not harm the environment, policies for safe disposal of waste and development of employee skills for pollution control.
- Legal compliance - Following legal compliance -it is very important to follow the laws created by the government for environmental protection.
- Voluntary participation: The organization needs to participate in a government programme related to the management of hazardous substances and other related training
- Measuring results- Periodic assessment of pollution control programme in terms of their cost and benefit is important to have steady progress concerning environment pollution 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.

Q. 6 Explain the various elements of business ethics.

Answer:



The various elements of business ethics are following

- Top management commitment - The CEO and other higher-level manager needs to be openly and strongly committed to business misconduct, the top management plays an important role in the entire organization to follow ethical business practices
- Publication of a code- Organizations need to define the code of conduct which will include quality standard, fundamental safety and adherence to the law, product quality and standards, law which govern production health and safety standard for the employees.
- Establishment of compliance mechanism: Suitable compliance mechanizes needs to be should be established in the organization to ensure that actual decision and firm action company with the ethical standard of the firm, there need to be policies related to different activities like hiring, auditing etc.
- Involving employees at all level: employees need to be involved at all level of the business programme. A small group of employees can be formed to discuss the important ethical issue and examine the attitude of the employee toward it.
- Measuring results: Results of ethical policies must be audited and monitored and further course of action can be taken to bring improvement.

Q. 7 Discuss the guidelines enumerated by the Companies Act 2013 for Corporate Social Responsibility.

Answer:

Corporate social responsibility refers to role companies can play in meeting the agenda of social development and entails a balanced approach to economic progress, social progress and environment protection.

In India clause of CSR is governed by clause 135 of companies act 2013.

The CSR act applies to the companies with a turnover of more than 1000 crore or net worth of 500 cr or net profit of 5 crores or more.

- The new rules, which are applicable from the fiscal year 2014-15 onwards,

Also require companies to set up a CSR committee consisting of their board

- Members, including at least one independent director.
- The act encourages companies to spend at 2% of their average net profit in
- the previous three years on CSR activities.
- the indicative activities, which can be undertaken by a company under

CSR have been specified under schedule vii of the act.

- Only CSR activities undertaken in India will be taken into consideration. Activities meant exclusively for employees and their families will not qualify under CSR.