

## **Meaning:**

Social responsibility of business implies the obligations of the management of a business enterprise to protect the interests of the society.

According to the concept of social responsibility the objective of managers for taking business decisions is not merely to maximize profits or shareholders' value but also to serve and protect the interests of other members of a society such as workers, consumers and the community as a whole.

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Thus, Sachar Committee on Companies and MRTP Acts appointed by Government of India states, "In the development of corporate ethics we have reached a stage where the question of social responsibility of business to the community can no longer be scoffed at or taken lightly. In the environment of modern corporate economic development, the corporate sector no longer functions in isolation. If the plea of the companies that they are performing a social purpose is to be accepted, it can only be judged by the test of social responsiveness shown to the needs of the society".



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It may be noted that some Indian sociologists and economists relate the idea of social responsibility of business of the Gandhian concept of trusteeship. According to Mahatma Gandhi, capitalist class owns wealth or capital as trustees of the society. The resources and capital they use for production of goods and services, according to him, should be used not to maximize profits for them but for the larger benefit of the society.

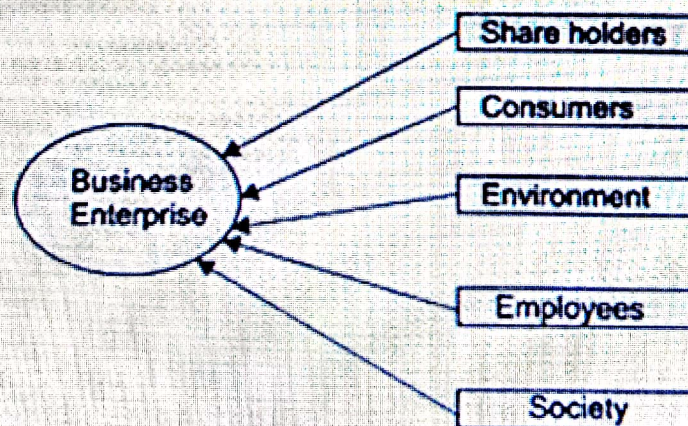
However, in our view, it will be too idealistic to expect that business enterprises will be purely guided by the benefits they confer on the society by their activities. The concept of social responsibility as used in management science is that businesses should maximise their profits subject to their working in a socially responsible manner to promote the interests of the society.



## Social Responsibility of Business and Social Contract:

It is evident from above, the social responsibility of business implies that a corporate enterprise has to serve interests other than that of common shareholders who, of course, expect that their rate of return, value or wealth should be maximised.

But in today's world the interest of other stakeholders, community and environment must be protected and promoted. Social responsibility of business enterprises to the various stakeholders and society in general is considered to be the result of a social contract. Fig. 3.1. Responsibility of Business Enterprises towards Stakeholders and Society in General



**Fig. 3.1.** Responsibility of Business Enterprises towards Stakeholders and Society in General.



## **1. Responsibility to Shareholders:**

In the context of good corporate governance, a corporate enterprise must recognise the rights of shareholders and protect their interests. It should respect shareholders' right to information and respect their right to submit proposals to vote and to ask questions at the annual general body meeting.

The corporate enterprise should observe the best code of conduct in its dealings with the shareholders. However, the corporate Board and management try to increase profits or shareholders' value but in pursuing this objective, they should protect the interests of employees, consumers and other stakeholders. Its special responsibility is that in its efforts to increase profits or shareholders' value it should not pollute the environment.

## **2. Responsibility to Employees:**

The success of a business enterprise depends to a large extent on the morale of its employees. Employees make valuable contribution to the activities of a business organisation. The corporate enterprise should have good and fair employment practices and industrial relations to enhance its productivity. It must recognise the rights of workers or



Besides, it should not discriminate between various employees.

The most important responsibility of a corporate enterprise towards employees is the payment of fair wages to them and provide healthy and good working conditions. The business enterprises should recognise the need for providing essential labour welfare activities to their employees, especially they should take care of women workers. Besides, the enterprises should make arrangements for proper training and education of the workers to enhance their skills.

However, it may be noted that very few companies in India follow many of the above good practices. While the captains of Indian industries generally complain about low productivity of their employees, little has been done to address their problems. Ajith Nivard Cabraal rightly writes, "It should perhaps be realised that corporations can only be as effective and efficient as its employees and therefore steps should be taken to implement such reforms in a pro-active manner, rather than merely attempting to comply with many labour laws that prevail in the country. This is probably one area where good governance practices could make a significant impact on the country's business environment."



### **3. Responsibility to Consumers:**

Some economists think that consumer is a king who directs the business enterprises to produce goods and services to satisfy his wants. However, in the modern times this may not be strictly true but the companies must acknowledge their responsibilities to protect their interests in undertaking their productive activities.

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Invoking the notion of social contract, the management expert Peter Drucker observes, "The customer is the foundation of a business and keeps it in existence. He alone gives employment. To meet the wants and needs of a consumer, the society entrusts wealth-producing resources to the business enterprise". In view of above, the business enterprises should recognise the rights of consumers and understand their needs and wants and produce goods or services accordingly.



#### **4. Obligation towards the Environment:**

The foremost responsibility of business enterprises is to ensure that they should not damage the environment and for this purpose they should reduce as much as possible air and water pollution by their productive activities. They should not dump their toxic waste products in rivers and streams to avoid their pollution. Pollution of environment poses a great health hazard for the people and is a cause of several respiratory and skin diseases.

In economic theory pollution of environment is regarded as social cost that must be minimised. There is now a growing awareness towards reduction in environment pollution. According to the recent findings the climate change is occurring due to greater emission of carbon dioxide and other pollutants.