

Fig. 8.1: Responsibilities of Business

William E Halal's *return-on-resources model of corporate performance*<sup>8</sup> recognises the fact that no corporate social posture will be value-free, and this makes corporate social responsiveness a tremendously difficult task. He points out that a firm can only attempt to unite the diverse interests of various social groups to form a workable coalition engaged in creating value for distribution among members of the coalition. Beyond a certain level of economic activity, the social issues at stake may become conflicting. *For example*, large spending for social cause may affect the profitability of the firm which could have implications for the stakeholders and the future of the firm. This calls for tradeoffs which involve both economic and ethical decisions that will not necessarily satisfy the needs of every stakeholder.

According to Ackerman's model, there are three phases in the development of the social responsiveness of a company.

The first phase is one when the top management recognizes the existence of a social problem which deserves the company's attention and acknowledges the company's policy towards it by making an oral or written statement.

The second phase is characterized by the company appointing staff specialists or external consultants to study the problem and suggest ways of dealing with it.

The third phase involves the implementation of the social responsibility programmes.

### BOX 8.3 : EVOLUTION OF SOCIAL RESPONSIBILITY AT TISCO

Since its inception, the Tata Iron and Steel Company (Tisco) has been a shining example of social responsibility. The Committee appointed to conduct the Social Audit of Tisco has observed in its Report: "At a time when Max Weber, the great German Sociologist, was advocating his theory of transforming a traditional society into a modern one through industrialisation and modern management, little did he know that in the jungles of Bihar an Indian visionary had already planned the establishment of the first Steel City (not a mere factory) in Asia. Before he passed away, Jamshedji Tata had in a letter to his son Dorab instructed him: "Be sure to lay out wide streets planted with shady trees, every other one of a quick growing variety. Be sure there is plenty of space for lawns and gardens. Reserve large areas for football, hockey and parks. Earmark areas for Hindu temples, Mohammedan mosques and Christian churches." No wonder Jamshedpur emerged as a beautiful and well developed city.

1970 witnessed a landmark development when the Articles of association of the company was amended to incorporate the social and moral responsibilities of the company to consumers, employees, shareholders, society and the local people. A decade later the Board of Directors of Tisco appointed a Social Audit Committee to go in to the question of whether and to what extent the company had fulfilled its social obligations laid down in the Articles. This resulted in the first social audit ever undertaken by any company, public or private, in India, at a time it was not popular anywhere in the world. The Report of the Committee was a glowing tribute to Tisco's endeavours in the discharge of its social obligations to the various segments of the society.

In 2000, Tisco won the National Corporate Governance Award, instituted by the Union finance ministry and sponsored by the Unit Trust of India (UTI). See Box 10.3 (chapter 10) for details.

### Extent of Social Orientation and Involvement

On the basis of the extent of social orientation and involvement of companies, this author would classify them in to the following categories.

**Anti-social:** Not only that these companies have no social orientation but also they are unfair and unscrupulous in the conduct of the business. Rather than respecting laws and norms in their letter and spirit, attempts may be made to take advantage of the loopholes / interpretational flexibility or to circumvent the rules and regulations by malpractices. Promoters and top managerial personnel of several organizations have been found to engage in insider trading, price rigging and the like. These businesses may even contribute a part of their ill-gotten money for social purpose to mask their real face or because of some compulsion to which they yield for fear of some reaction or for getting some favors or good will.

**Indifferent:** These are companies which have no social orientation beyond discharging the legal as well as the economic responsibilities. The attitude is that going by the rules and regulations is good enough; there is the government and other organizations to work for the social cause and it is not the business of the business.

**Peripheral:** These companies are slightly a shade better than the indifferent category. They have little bit of social orientation, often for the name sake.

**Socially Oriented:** Companies in this category have a high level of social orientation but their real involvement is constrained by limitations of resource.

**Committed and Very Active:** These companies are characterised by high level of social orientation and real involvement in the societal welfare programmes. What distinguishes these companies from those in the preceding category is mostly their ability to commit significant amount of resources to make the social orientation meaningful.

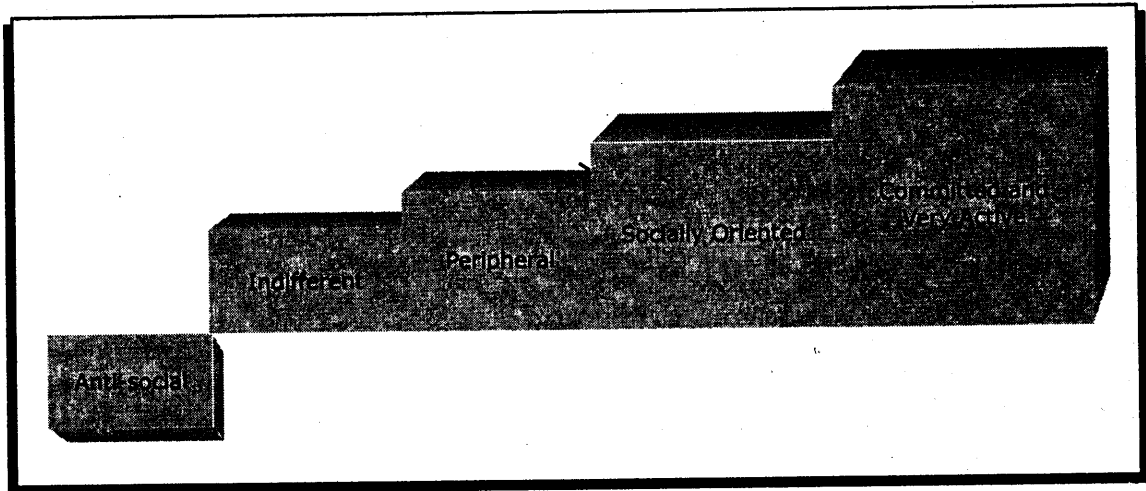


Fig. 8.2 : Social Orientations and Involvement of Business

## FACTORS AFFECTING SOCIAL ORIENTATION

Important factors which influence the social orientation of companies include the following.

**Promoters and Top Management:** The values and vision of promoters and top management is one of the very important factors which influence the corporate social responsibility, as pointed out in Box 8.3.

**Board of Directors:** As it is the Board of Directors which decides the major policies and resource allocation of company, the attitude of the members of the Board is an important influencer of the social orientation. Box 8.3 gives some indication of this.

**Stakeholders and Internal Power Relationship:** The attitude of various stakeholders like shareholders, creditors, employees etc. and the internal power relationship also affect the social orientation of a company. As suggested by the Halal's model described in the previous section of this chapter, a firm can only attempt to unite the diverse interests of various social groups to form a workable coalition engaged in creating value for distribution among members of the coalition. Beyond a certain level of economic activity, the social issues at stake may become conflicting.

**Societal Factors:** The social orientation of company is also influenced by certain characteristics of the society and general attitude and expectation of the society regarding the social responsibility of business. *For example*, a resourceful firm located in a poor community may be expected to contribute to the development of education and health facilities etc. of the locality where as such involvement may not be required of a firm in a well developed community. The orientations or approaches may vary in accordance with the environment. The behaviour or social orientation expected of business may vary between different societies.

**Industry and Trade Associations:** Industry and trade associations also influence the behaviour of the firms by establishing professional and ethical codes and norms, education and collective decisions.

**Government and Laws:** Laws are society's codification of right and wrong. Business shall play the rules of the game. Anti trust legislations, legislations to curb corruption, unfair practices etc. vary between nations. What is right or not anti-law in one country may not be so in some other country. Further, what is legally controlled in some countries have no legal control in some other countries.

Besides legislation, there are other methods of government influence like guidelines, persuasion, incentives ( like tax exemptions) and pressurising.

The social orientation would also depend on the government's view of social responsibility and the power and earnestness of government / agencies (like SEBI, for example) in dealing with defaulting companies.

**Political Influences:** Political influences include pressure exerted by special interest groups in society and media to control business practices. These include a variety of non-government organizations (NGOs) like consumer interest groups, environmentalists etc. They use a variety of methods like lobbying to persuade government and public agencies to adopt regulatory measures, conducting public awareness campaigns, and even direct confrontation with the business in some cases.

**Competitors:** Social orientation of company is also influenced by competitive forces. Two types of competitive behaviour are often noted. When one or some companies become socially involved, others may be encouraged or provoked to do some thing. Some times, there may be competition between companies to out-perform others. The other way by which the society benefit by competitive behaviour is the actions of suing competitors for unfair practices or publicly exposing the misbehaviour of competitors.

**Resources:** Social involvement of companies is also affected by the financial position and other resources of the company. It may be noted that the Tisco has been constrained to cap, albeit at fairly high level, its social responsibility expenditure.

**Ethical Influences:** Another factor influencing the social orientation is the ethical decision making and self-regulation of business conduct. Some companies have well laid down codes and norms of ethical behavior. See the previous chapter for more information.

Five ethical standards that are in vague are summarized by Gene Laczniak as follows.<sup>9</sup>

1. *The Golden Rule:* Act in the way you would expect others to act towards you.
2. *The Utilitarian Principle:* Act in a way that results in the greatest good for the greatest number.
3. *Kant's Categorical Imperative:* Act in such a way that the action you take could be a universal law or rule of behavior under the circumstances.
4. *The Professional Ethic:* Take actions that a disinterested panel of professional colleagues would view as proper.
5. *The TV Test:* Ask, "Would I feel comfortable explaining to a national TV audience why I took this action?"

## **RESPONSIBILITIES TO DIFFERENT SECTIONS**

There is no unanimity of opinion as to what constitutes social responsibility of business. The important generally accepted responsibilities of the business to different sections of the society are described below.

### **Responsibility to Shareholders**

The responsibility of a company to its shareholders, who are the owners, is indeed a primary one. The fact that the shareholders have taken a great risk in making investment in the business should be adequately recognised.

To protect the interests of the shareholders and employees, "the primary business of a business is to stay in business". To safeguard the capital of the shareholders and to provide a reasonable dividend, the company has to strengthen and consolidate its position. Hence, it should develop and improve its business and build up its financial independence.

Needless to say, to provide dividend, the company should earn sufficient profit. Adequate reserves should be built up so that it will be able to declare a reasonable dividend during a lean period as well.

If a company fails to cope with changes in a changing and dynamic world, its position will be shaken, and the shareholders' interests will be affected. By innovation and growth the company should consolidate and improve its position and help strengthen the share prices.

The shareholders are interested not only in the protection of their investment and the return on it but also in the image of the company. It shall, therefore, be the endeavour of the company to ensure that its public image is such that the shareholders can feel proud of their company.

It may be mentioned here that the shareholders also have certain responsibilities which they have to discharge to protect their own interests. They shall not only offer whole-hearted support and co-operation in the positive efforts of the company but shall also guide and control properly its policies and activities. At the same time, they shall appreciate the responsibility of the business to other sections of society – to the workers, consumers and the community.

### **Responsibility to Employees**

The success of an organisation depends to a very large extent on the morale of the employees and their whole-hearted co-operation. Employee morale depends to a large extent on the discharge of the company's responsibilities to them and the employer-employee relationship. The responsibility of the organisation to the workers include:

1. The payment of fair wages;
2. The provision of the best possible working conditions;
3. The establishment of fair work standards and norms;
4. The provision of labour welfare facilities to the extent possible and desirable;
5. Arrangements for proper training and education of the workers;
6. Reasonable chances and proper system for accomplishment and promotion;
7. Proper recognition, appreciation and encouragement of special skills and capabilities of the workers;

8. The installation of an efficient grievance handling system;
9. An opportunity for participating in managerial decisions to the extent desirable.

The Committee that conducted the social audit of Tata Iron and Steel Company (TISCO) observes that "not only should the company carry out its various obligations to the employees as well as the larger community as a matter of principle, but this has also led to a higher degree of efficiency in TISCO works and an unparalleled performance in industrial peace and considerable team spirit and discipline which have all resulted in high productivity and utilisation of capacity". Thus, by discharging its responsibilities to the employees, the business advances its own interests.

It may, however, be pointed out that the expenditure on labour welfare, etc., should have relevance to the financial position of the company and the economic conditions of the nation. This aspect has to be particularly taken note of by public sector enterprises. Such expenditure shall not exceed the socially and economically warranted limits and shall not cause undue burden on the consumers or the general public. It shall not result in the formation of islands of affluence or comfort in the midst of poverty and suffering at the expense of society.

### Responsibility to Consumers

According to Peter Drucker, "there is only one valid definition of business purpose; *to create a customer.*" Drucker observes: "The customer is the foundation of a business and keeps it in existence. He alone gives employment. To supply the wants and needs of a consumer, society entrusts wealth-producing resources to the business enterprise".

It has been widely recognised that customer satisfaction shall be the key to satisfying the organisational goals. Important responsibilities of the business to the customers are :

1. To improve the efficiency of the functioning of the business so as to (a) increase productivity and reduce prices, (b) improve quality, and (c) smoothen the distribution system to make goods easily available.
2. To do research and development, to improve quality and introduce better and new products.
3. To take appropriate steps to remove the imperfections in the distribution system, including black-marketing or profiteering by middlemen or anti-social elements.
4. To supply goods at reasonable prices even when there is a seller's market.
5. To provide the required after-sales services.
6. To ensure that the product supplied has no adverse effect on the consumer.
7. To provide sufficient information about the products, including their adverse effects, risks, and care to be taken while using the products.
8. To avoid misleading the customers by improper advertisements or otherwise.
9. To provide an opportunity for being heard and to redress genuine grievances.
10. To understand customer needs and to take necessary measures to satisfy these needs

Despite the popularity of the *Marketing Concept* and the growing awareness of consumer rights, consumers all over the world are, by and large, dissatisfied. *Consumerism*, which is an organised endeavour of the consumers to *protect their rights*, is a manifestation of this fact. In shortage economies like India many businessmen pay scant attention to their responsibilities to consumers. To protect consumer rights and to make the business discharge its responsibilities to them, the consumers should give up their indifferent attitude and build up a strong consumer movement.

### Responsibility to the Community

A business has a lot of responsibility to the community around its location and to the society at large. These responsibilities include :

1. Taking appropriate steps to prevent environmental pollution and to preserve the ecological balance.
2. Rehabilitating the population displaced by the operation of the business, if any.
3. Assisting in the overall development of the locality.
4. Taking steps to conserve scarce resources and developing alternatives, wherever possible.
5. Improving the efficiency of the business operation.
6. Contributing to research and development.
7. Development of backward areas.
8. Promotion of ancillarisation and small-scale industries.
9. Making possible contribution to furthering social causes like the promotion of education and population control.
10. Contributing to the national effort to build up a better society.

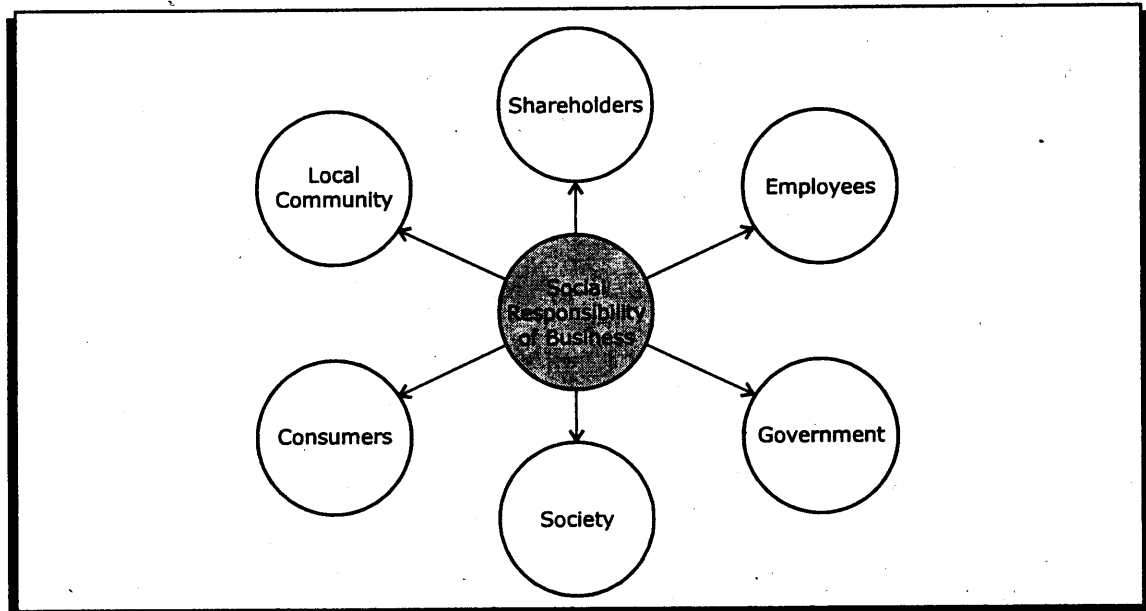


Fig. 8.3 : Claimants of Social Responsibility of Business

## THE INDIAN SITUATION

The Indian business sector presents a mixed picture as far as social responsibility is concerned. J.R.D. Tata, who was instrumental in conducting the first social audit in India and perhaps in the world, was of the opinion that while on the side of production, of growth, of efficiency, Indian industry, on the whole, did remarkably well, usually against odds and inspite of crippling

### Arguments Against Social Involvement of Business

1. Business should confine to its own business. There are government and social organisations to carry out social activities.
2. Involvement in social activities could adversely affect the economic health of a business enterprise. It may be noted that the expenditures on social welfare has been imposing severe burden on TISCO.
3. If the cost of the social involvement of the business is ultimately passed on to the consumers, there is no point in exalting the social involvement of business. Sometimes there could even be a net loss to the society because of the high cost of the corporate sector undertaking such activities.
4. Many companies involve themselves in social activities because of the tax exemptions on the income spent on special social purposes.
5. If the social involvement of a business enterprise causes an increase in the price of its products, it could affect its competitiveness both in the domestic and international markets.
6. Social involvement of business could lead to an increase in the dominance or influence of business over the society.

## SOCIAL AUDIT

### Meaning

One important issue related to social responsibility of business is how to evaluate the social performance. In other words, *social audit is a tool for evaluating how satisfactorily a company has discharged its social responsibilities. Social audit enables the public as well as the company to evaluate the social performance of the company.*

Bauer and Fenn Jr. define social audit as “a commitment to systematic assessment of and activities on some meaningful, definable domain of the company’s activities that have social impact.” According to Ahmed Belkaoui, “social audit much like the financial audit – is an identification and examination of the activities of the firm in order to assess, evaluate, measure and report their impact on the immediate social environment.” 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, that is presenting in a proper format and manner, the social performance of the firm.

Dr. Clark C. Abt, in his book *Audit for Management*, suggests that a social Audit should, as far as possible, be approximated to an ordinary commercial audit; that this should be based on a social balance sheet with a “credit” side and “debit” side. He calls them “inputs” and “outputs” or “costs” and “benefits” so far as the social balance sheet is concerned. After suggesting that every “input” and “output” must be measured in monetary terms, he points out that the basic purpose of a business corporation is to maximize the financial return, earned on its financial investment plus the amount of social return on its social investment. To make rational investment decisions in social