



## SOCIAL, ECONOMICAL AND ETHICAL RESPONSIBILITY OF BUSINESS ETHICS

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### **Abstract:**

Business and society must function harmoniously. Business organizations are also social entities. Apart from the fact that they exist and operate within a social framework, various social relationships also develop within the workplace. Working within a group, a team or a department becomes a social activity. Work is an indispensable part of a man's and woman's life. This provides him with purchasing power and all the necessities and luxuries of life, but also because it provides him with an opportunity for self actualization and self development with fulfilling human relationships while working with others. Work is what provides a man with exciting possibilities and endless challenges to develop him mentally, intellectually. Emotionally and spiritually, it gives him his status and recognition in society. But most importantly, it provides him with an opportunity to work with others, to grow with others, to enrich his life through building bonds with others. And that is exactly why; work and business are termed as an extension of the social framework.

**Key Words:** Society, Business, Profit, Culture, Ethics, Responsibility, Human Being...etc.

### **Introduction:**

#### **1. Understanding Why Business Must Be Socially Responsible:**

According to the system approach to business, both business and society interact with each other and are mutually dependent on each other. Business exists and operates within a social framework and thus requires social connection. Society, on the other hand, requires business to fulfill its needs and for its economic and social well-being. A business receives inputs from the society. It offers its output to the society in terms of products and social service. Its output, i.e., its products and activities must be beneficial and acceptable to the society. All businesses need society's approval in order to function as well. Business needs to interact with some important concepts of the society.

##### **(a). Growth and Responsible Expectation:**

Business men must realize that the best way to survive and grow in the long run is to operate profitably by serving customers responsibly. The social expectation is that the bigger the organization grows, greater are the responsibilities. "The managers of the biggest companies know that as a business gets larger, the public takes more interest because it has a greater impact on the community. The antennae of these managers are tuned to public opinion and they react to it. They seek to maintain a proper image of their companies in the public mind. This leads to the assumption of greater social responsibilities"<sup>20</sup>.

##### **(b). Long-term Orientation:**

If an organization expects to conduct its business in the long-term, it will require a loyal brand of customers, repeat customers, and customers with goodwill. This goodwill cannot be bought, begged or borrowed - it has to be earned! And it can be earned only when organizations behave responsibly; when they discharge social responsibilities. Moreover, if they act in a socially irresponsible manner and society is harmed, it will harm them in the long run, because they have to operate in the same society which they have harmed. Business cannot remain immune while the rest of the society is being destroyed. It will get affected too, sooner or later.

##### **(c). Reputation of the Company:**

Many organizations want to build up a reputation of a good, friendly company and what better way to do this than to engage in a socially approved activity? This is why many companies build a company image, such as, by giving away scholarships to deserving students and donating products to the weaker sections of the society. This is especially true of the major Indian tea companies which are perceived as being exploitative by the people of the North Eastern states of India, where most of their tea gardens are located. To offset this image, they resort to community service and social activities.

##### **(d). Give and Take Relationship:**

Since business exists and operates within the society, it needs social sanction and approval to function, in the society. To keep the balance, it needs to give back something to the society, to do something for its benefit. And what it does for the society and its welfare restores the balance between the business and the

society. Business and society must function harmoniously. Business organizations are also social entities. Apart from the fact that they exist and operate within a social framework, various social relationships also develop within the workplace. Working within a group, a team or a department becomes a social activity. Work is an indispensable part of a man's and woman's life. This provides him with purchasing power and all the necessities and luxuries of life, but also because it provides him with an opportunity for self actualization and self development with fulfilling human relationships while working with others. Work is what provides a man with exciting possibilities and endless challenges to develop him mentally, intellectually. Emotionally and spiritually, it gives him his status and recognition in society. But most importantly, it provides him with an opportunity to work with others, to grow with others, to enrich his life through building bonds with others. And that is exactly why; work and business are termed as an extension of the social framework. If an organization can improve the quality of life of customers and help to solve their problems, then the operations, activities and relationships of the organization will automatically grow. Then there is an integration of private and public good simultaneously. It is in the goal of serving society that the personal interest of a company and the interest of society meet. The more closely a company concentrates on solving a particular problem of the society or of its customers, who are members of the society, the better it is able to solve its own problems of growth and prosperity. In business and society we can have good relation with this interested group namely, government, law of society, shareholders, business employees, consumers and financial institution <sup>21</sup>.

## **2. Major Social Responsibilities of Business:**

### **(a). Optimum Utilization of Scarce National Resources:**

All business firms have the moral obligation to utilize the scarce national resources of the country in an optimum way. The resources go waste and deteriorate. It is assumed that the natural resources of a country are always limited at a given period of time, and hence they must be utilized carefully and in a way to optimize their use. Since many uses can be made of the same natural resources, hence options must be carefully chosen to find out which uses will serve the country better and result in social welfare. There is always an opportunity cost associated with using scarce natural resources of the country. For example, the case of wood, the given amount of wood that a country has at a particular time is limited, and can be utilized in various ways. It may be used to build houses, it may be used to produce paper, it may be utilized in wood based industries and factories, and it may be used to produce household goods and decorative items and so on. Hence it must be first ascertained as to which of these options are of crucial importance - whether it is better to use the wood for construction of a house, for producing paper or more important in making decorative items. Moreover what proportion of the wood should be used for what purpose must also be ascertained? Because whatever wood is used by one industry, that amount of wood is denied to other industries. That is where the concept of opportunity cost comes in. It is important to find out the cost to one industry for making alternative uses of the same material by another industry. Hence, the industry to which this scarce natural resource is being made available, must make a moral commitment to utilize this scarce resource to its optimum level, and not to waste or mystify it in any way. It must be remembered at all times that what is being made available to it, is being denied to others? That is one of its major social responsibilities.

### **(b). Responsibility is not to Make Loss:**

A socially responsible organization does not make losses and become a burden on society. Economic performance and social performance are both necessary to become a socially responsible company. Moreover, economic performance alone enables a company to discharge its social obligations. A loss making organization cannot produce quality products for its customers, cannot generate revenue for its shareholders, cannot keep its welfare commitments to its employees and ultimately drives its workforce into the unemployment market. Profits provide the capital to an organization to stay in business, to expand and to earn returns on its investments. There is a responsibility to make profits in order to serve society: If organizations did not make profits and went out of business, thousands of people as well as the economy would suffer drastically. Thus, organizations have a social responsibility to make profits. Only adequate profits can help a company to meet its society obligations and expectations. A company has to work out a method for integrating profits and social good. It cannot make money at any cost, neither can it be a caring company, but unprofitable. Making profits is also, in a way, fulfilling its social obligations to society since businesses are expected to earn capital for the society. It has to be a profitable and a successful company while acting in a socially responsible manner. Only then can it be said to have discharged its social responsibilities.

### **(c). Improved Quality of Life:**

Quality of life is not merely dependent on our standard of living, but also on our standard of life. Standard of living is based on one's financial power and is the indicator of the quality of life and one's material growth. Standard of life, on the other hand, is based on one's internal growth, the growth of one's character, growth of the mind and soul. Though standard of living is important as far as physiological and security needs are concerned, it is standard of life that provides the real quality of life, an enriched quality of life. Business firms also have the responsibility to provide for opportunities to that society and the members of the society like its workers and its customers to enrich their lives and to better the quality of life. Improvement of the quality of

work of employees is a special area of focus. Moreover its products and services can be targeted to improving the quality of life of the people of the society.

**(d). Responsibility of Employment and Income:**

Every business should make provisions for the payment of fair wages, satisfactory working conditions, steady employment and job security, prospects for promotion, growth and development of workers and also should take adequate measures for employees welfare. Thus, a business must be just and humane and must provide for fair opportunities to all workers for their advancements. Business must create conditions which enable workers to put forward their best efforts to achieve the organizational goals. This includes recognition, appreciation for efforts put in, employee's right to justice, a right to participate in decisions affecting their work life, right to collectively bargain for their dues, right to form trade unions, and a right to be compensated for the efforts of the workers. Moreover, business should offer employees the opportunity to develop their abilities, capacities and skills, help them in their personal and professional growth and development and offer them opportunities for advancement within the organization through education and training. Moreover they should be treated as human beings with due regard and respect for their thoughts feelings and beliefs. As far as monetary compensation is concerned, every worker, apart from receiving a fair income, should be entitled to enjoy a percentage of his productivity and the profitability of the company should receive an income commensurate with his skills, abilities, talents, and efforts. The compensation scheme of the organization should be one which is not only fair and just but also equitable and which encourages productivity and efforts of workers. And this must be accompanied by job security so that workers continue to receive their incomes without fear or forbidding of the future. If business does all these, then it shall be doing a great welfare for society and would have discharged one of its major social responsibilities.

**(e). Offering Quality Products at a Fair Price:**

Customer's satisfaction should be the ultimate aim of all business activities. Offering adulterated products, poor quality products and not abiding by the standards of measurements, lack of proper attention and courtesy to customers, inadequate after-sales service, misleading and false advertisements... etc. are examples of violations of business ethics and socially irresponsible behavior on the part of business. Moreover, business firms should try to offer the best possible quality in its products. Consumers do not buy the product as an end in itself but for the services it can give. If the service given by the product can meet consumers expectations, if not exceed it then consumers will be satisfied with the product. However, the price of the product should also be fair. This means that the price of the product should commensurate with the quality of the product. Just because the quality of the product is satisfactory or because the seller is operating in a monopolistic market, they should curb the temptation to fix exorbitant prices for their products. Moreover, it is not only unethical, but also morally wrong to overcharge the price of a product or to supply lesser quality for a higher price. Providing quality products at fair prices is a major social responsibility of business organizations.

**(f). Environmental Protection:**

Business organizations also have the social responsibility of taking serious steps to protect the environment from industrial pollution and destruction. The refrigerator companies cause the ozone layers of the atmosphere to deplete; the dust of the cement companies may cause lung cancers and other breathing problems; the fumes of many industrial houses pollute the atmosphere and cause various types of biological diseases; the waste and effluence of many manufacturing firms are thrown into lakes, rivers and ponds thereby polluting the water of the community; the high temperature and severe noises from many industries apart from polluting the atmosphere, causes innumerable damage not only to human population but also to others in the animal and plant kingdoms. Business does so much irreparable harm to the environment, that it becomes an obligation for them, not only morally, but also legally to undo the damage by taking serious and responsible steps to protect the environment and keep it in a healthy condition. Planting of trees, avoiding polluting the atmosphere, water and greenery of the community as well as of the country and also taking active steps to protect the environment from further harm is what business organizations must do to conduct themselves as responsible corporate citizens. However, that alone is not enough. Business firms must also provide civic amenities so as not to destroy or damage its environment. It should provide sanitation, public health, prevention of noise pollution and try to restrain bad effluent, chimney smoke and smog, ugly and dirty buildings and structures, poor housing and living conditions of workers, unhygienic and overflowing drainage, piling up of debris, etc. Taking measures for all these activities constitute a major social responsibility of business firms.

**(g). Fair Trade Practices:**

Fair Trade Practices of business firms constitute as the following:

- Avoidance of monopolistic and restrictive trade practices, by entering into secret combination agreements;
- Charging fair and reasonable price from customers and not engaging in, or leading the entire market into, a price war;
- Offering products and services of quality consistent with their claims and expectations;
- Making goods and services easily available to the marketplace and not resorting to artificial scarcities;

- Not indulging in profiteering, hoarding or black-marketing and thereby swindling the public;
- Not making false, misleading and exaggerated claims in its advertisements;
- Providing accurate, relevant and timely information to creditors and suppliers;
- Making prompt repayment of loans and other borrowings;
- Abiding by the rules, regulations and the laws of the country;
- Paying corporate taxes, duties and other dues; honestly and promptly without any cover-ups or cheatings;
- Not bribing public servants and corrupting the democratic structure of the country;
- Not buying political favors to sway decisions in its favor; maintaining fair business policies, decisions and activities;
- Setting up desirable standards of living and avoiding ostentations and wasteful expenditures;
- Playing a proper role in civic affairs and providing and promoting general amenities; not selling rebuilt, secondhand or used products as new;
- Not resorting to planned obsolescence of products and spare parts, in order to gain a continuous market for its products;
- Not procuring business or trade secrets of competitors through espionage, bribery, coercion or in any other way;
- Not deliberately making the organization sick so as to avoid many of its obligations and escape from its responsibilities.

**(h). Fulfill all National Obligations under Various National Laws:**

Business organizations are considered to be corporate citizens of the country in which they operate and conduct their business. As citizens, they are required to fulfill certain obligations under various national laws and to perform certain duties towards the nation. Firstly, it has to fulfill its civic duties like avoiding pollution and keeping the environment clean. Then they must regularly and honestly pay all their taxes and duties to the concerned governments. They must make sure that they obey all the provisions of the various business and labour laws of the country in letter and spirit. Moreover, they must conduct their affairs as law-abiding citizens without creating any nuisance to the community or to the country in which they exit and operate. Above all, they must have the national interest of the country in which they operate at heart and in their mind at all times. They must make an attempt to ensure national prosperity and reduce some of the country's national problems, like unemployment corruption, black marketing, etc<sup>22</sup>.

**3. Social, Economical and Ethical Responsibilities of Business:**

Business organizations today, apart from being economic entities, are also considered to be social institutions, primarily for two reasons. Firstly, since business organizations exist and operate within a social structure, they must earn social sanction, without which they will collapse and die out. Secondly, more importantly, since business organizations exercise a definite and extensive influence on our social lifestyles. They must discharge social responsibilities. Businesses today no longer exist only to maximize profits. They exist and operate for a number of reasons, one of which should be the welfare of the society in which they operate and grow. Hence, businesses should be socially responsible, socially conscious and they should carefully consider the social and ethical implications of their decisions, as they sometimes have irreversible impact on the society. If businesses exist to earn profits only, then profits can be earned in numerous ways even through black marketing, hoarding, adulteration, etc. But these acts degenerate business into swindling the public. Hence, profit motive of business must be tempered with service motive, to fulfill social obligations for social welfare. No business can exist without the acceptance and sanction of the society in which it carries out its activities. The organization is so dependent on its social environment that its very existence, survival and growth depend on its acceptance and approval by the society. No organization can hope to exist and grow which has outlived its utility to the society. As early as Peter F. Drucker, the renowned management guru, stated that the relationship between business and society "is like the relationship between a ship and the sea which engirds it and carries it. This threatens it with storm and shipwreck, which has to be crossed but which is yet alien and distant the environment rather than the home of the ship. But society is not just the environment of the enterprise. Even most private enterprises is an organ of society and serves a social function". Moreover he goes on to add, "The responsibility of management in our society is decisive not only for the enterprise itself but for management's public standing, its success and status, for the very future of our economy and social system and the survival of the enterprise as an autonomous institution. The public responsibility of management must therefore underline all its behavior. Basically it furnishes the ethics of management". In a Seminar sponsored by the India International Centre, New Delhi, titled 'Social Responsibilities of Business', in 1966, our late Prime Minister Lal Bahadur Shastri said in his inaugural speech "Too often the community views the businessmen's aims as selfish gain rather than advancement of the general welfare. That impression can be removed only if business is fully alive to its social responsibilities and helps our society to function in harmony as one organic whole"<sup>23</sup>.

He further added "The benefits of development must accrue more and more to the relatively less-privileged class of society and there should be progressive reduction of the concentration of incomes, wealth and economic power. The importance of the role to be played by the businessmen in the establishment of this new order cannot be over-emphasized. It is in a venture to think even greater than that of the economist and the politician, the organizations today can become, and is indeed required to become, agents of social change, if they want to play a more meaningful role within the social structure. Each decision of the organization has an impact upon society. Hence management of an organization is required to conduct a social cost-benefit analysis of its various decisions, taking into account their impact upon the society."

As a result of rising public expectations from business, many companies are incorporating social responsibility into their mission statements. Businesses today have a natural and intimate stake in the viability of society, in the stability and growth of its economy; in the orderly functioning of its free and democratic institutions under the Rule of Law. As an organ of society, business activities have a decisive impact on the social scenario. The first and foremost responsibility of a business is to operate at a profit for its continued survival and avoid making losses, which cause great hardship to the society and untold miseries to its people. But along with its survival, businesses also have the responsibility to grow and develop. Businesses are wealth creating and wealth producing organs of the society. Keeping these organic functions intact, businesses must at the same time, strive to improve the well-being of the society. The committee for economic development, New York in its report on 'social responsibilities of business corporations', 1971. Reported, "It is in the enlightened self-interest of corporations to promote the public welfare in a positive way. Indeed, the corporate interest broadly defined by management can support involvement in helping to solve virtually any social problem, because people who have good environment education and opportunity make better employees, customers and neighbors for business than those who are poor, ignorant and oppressed". "All that exists in this Universe is the abode of the Almighty. Therefore, enjoy the good things in life by sharing them with others. Do not covet the possessions of others". "May we prosper together and enjoy our prosperity in common. May our studies be full of light? May we not quarrel with each other, Let there be peace, peace, peace". These are the traditional thoughts of all ancient religions. They hold good even today and can guide the economic activities of organizations. It is in this spirit that businesses can integrate themselves with the social aspects of people's life and discharge their social responsibilities <sup>24</sup>. Keith Davis in 'Can Business Afford to Ignore Social Responsibilities?' California Management Review, 1960, defines Social Responsibility as- "Social Responsibilities refer to the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest". Keith Davis uses the term 'Social Responsibility' of business to refer to three types of business obligations as:

- The Socio-Economic obligation,
- The Social-Ethical obligation, and
- The Socio-Human obligation <sup>25</sup>.

The Socio-Economic obligation of business refers to its obligation to prevent economic consequences of business from adversely affecting public welfare. To this end, businesses are required to promote employment opportunities to reduce the unemployment problem in the society, to maintain healthy competition so that consumers can enjoy its benefits in terms of high quality products and fair prices along with avoidance of monopolistic practices, curbing inflation, etc. The social-ethical obligation refers to the obligation of Ethics to the total quality of human behavior in the society to the development of the business institution to maintain honestly, and transparency. Basically ethical professionals are to keep their behavior in their business transaction and to stand for truth for any cost and think for maximum satisfaction to maximum people. The socio-human obligation refers to the obligation of business to nurture and develop its human resource so that employees get every opportunity to grow and develop and advance through life and their careers; to make the organization more humane and humanistic and to promote human values within the organization" <sup>26</sup>.

The modern economist defined Social Responsibility as the manager's responsiveness to public consensus. This public consensus would be determined in each country by its customs, religions, traditions, its level of industrialization, norms, standards and various other aspects. Kenneth Provides a broader definition of Social Responsibility "By Social Responsibility, we mean the intelligent and objective concern for the welfare of society that restrains individual and corporate behavior from ultimately destructive activities, no matter how immediately profitable, and leads in the direction of positive contribution to human betterment, variously as the latter may be defined" <sup>26</sup>.

These definitions are very broad in scope and do not prescribe specific activities to be taken in the interest of the society or the organization. Gives an operational definition of Social Responsibility, as "Social Responsibility contends that management is responsible to the organization itself and to all the interest groups with which it interacts". Other interest groups such as workers, customers, creditors, suppliers, government and society in general are placed essentially equal with shareholders" <sup>27</sup>. Day, in 'The Social Relevance of Business', also observed that "As a statement of purpose, maximizing of profit is not only unsatisfying; it is not even accurate. A more realistic statement has to be more complicated. The corporation is a creation of society whose

purpose is the production and distribution of needed goods and services, to profit of society and itself. Each element of that statement is needed if the whole is to be accurate; you cannot drop one element without doing violence to the facts" <sup>28</sup>.

Thus, taking into account all the above definitions, we see that today business consists of a well-blended mixture of altruism, self-interest and good citizenship. Today no business can survive in the long run in total disregard to its social concern. Business needs to make profits through the creation of utility for fulfilling needs and wants of consumers along with social benefit. Organizations today have learnt that discharging social responsibilities do not detract them from, or is counter to, profit making. Rather by discharging their social obligations and behaving in a socially responsible manner, they build a solid foundation to continue to make profits, not just in the short run, but also in the long run.

**(a). Social Responsibility is Maximizing Profit:**

In the present business in the free economy is seen economic and not social. The policies of the business should be guided by economic criteria and actions be dedicated by the profit maximization within the social legal framework. Considering any other factor other than profit maximization will be deliberately sacrificing profits. From the point of view of society the profit maximization may not be the best outcome of a business. There are different views on the subject of profit. They are:

- The business entity will best fulfill its obligation to society by fulfilling its obligation to itself.
- There is a distinction between short-term and long-term goal. Adhering to social goals may be profitable in the long-term for the business entity.
- The level of the profitability and how the society be treated after getting the minimum level of profit.
- The concern for efficient use of natural resources raise the question concerning efficient use of resources- allocation to regulate social consequences of the conduct of the business entity.

Profit is necessary for the survival of the business. The growth of the business is dependent on the level of the profit earnings of the organization. The company has to survive by making adequate profits for itself. Growth has to make more profits so that the new avenues can be planned. The example is given of that of a company is like a ship which has to keep afloat and at the same time the ships has to built plank by plank and grows. The other argument against maximization of profit is that the social level. The maximizing of are short-run. The pricing policies of the firm have to be online with the competitive advantage of the business entity. The next principle that the business has to take into account is the fairness that is combining social activities with the established economic activities of the business. The final argument is the legitimacy of the social issues that concerns wish of the government. The business organization pays to the government its dues. The business decisions today have a combination of self interest, and good citizenship.

**(b). The Social Responsibility of Business Is to Increase Its Profits:**

The businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catch words of the contemporary crop of reformers. "Social responsibilities of business" are notable for their analytical looseness and lack of rigor. What does it mean to say that "business" has responsibilities? Only people can have responsibilities. In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society which are, both embodied in law and in ethical custom. Of course, in some cases employers may have a different objective. A group of persons might establish a corporation for a social purpose for example constructing, a hospital or a school. The manager of such a corporation will not have money or profit as his objectives but the rendering of certain services. In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders. He is spending their money. Insofar as his actions raise the price to customers, he is spending customers' money. Insofar as his actions lower the wages of some employees, he is spending their money. The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so.<sup>29</sup> The executive is exercising a distinct social responsibility, rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.

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