

MANONMANIAM SUNDARANAR UNIVERSITY, Tirunelveli

Directorate of Distance and Continuing Education

M.Com., Second Year

Paper 2.1 BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

UNIT : 1

Definition of Ethics - Relationship of ethics to organisation - ethical standards and religious Doctrines (Brotherhood, Covenant, Trusteeship, Grace) - Why good ethics in Business - History of Business ethics - Application of the Principle of Ethics.

UNIT : 2

Human Ends - Responsibilities in a general sense - Types of Evils and Consequences - Proportionality - Minor Evils or physical Evils - Problems - Postive obligation - Rights - Cooperation in Evils - Location of Responsibility - the Grey areas - Practical applications - Negative Obligations.

UNIT : 3

Hiring and Firing - Preferential Hiring - Nepotism - Special Problems - Promotions - Firing - Just Cause - Due Process - The Obligations of Employees.

UNIT : 4

Wages and working conditions - wages and income - Fair wages - profit sharing - stability of work - working conditions - work or job satisfaction.

Health and safety of the customers - The fair sales contract - fraud, lying and deception - Special problems in Advertising, packing and Labeling - the ethics of Buyers.

UNIT : 5

Difficulties with the existing theories in pricing - unethical - cooperation and competition.

The myth of competition profits and social costs - Adhena to low - (creation licences, registration etc.,)

The Union - Attitude towards the union - creation ethical - power shifts and values.

UNIT : 6

Business and Society :

Social responsibilities of business - Evolution of concept - need and scope and Social responsibility - Social responsibility towards various groups - responsibility towards share holders, employees, consumers, Government, Society, Social responsibility of business in India.

Social Audit - Concept - Objectives - Scope - need - features- approaches - Social Audit in India.

Books Recommended :

- | | | | |
|----|---|---|---|
| 1. | Robert D Hay | - | Introduction to Business (Holt, Rinehart and Winstonic) |
| 2. | Thomas M Garret | - | Business Ethics (The Times of India Press) |
| 3. | Keith Davis and-
William C.
Frederick | - | Business and Society, Mc Graw Hill
International Book Company |
| 4. | M.J. Comer | - | Corporate Fraud (Tata MC Graw Hill) |
| 5. | Ralph Glasser | - | The New High Priesthood - the social, ethical and political
implication of a marketing - Oriented society (Mac Millan) |

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BUSINESS ETHICS AND SOCIAL RESPONSIBILITY
LESSONS 1 - 10

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Lesson 1**BUSINESS ETHICS - INTRODUCTION****Definition of Ethics**

The word ethics is derived from the Greek word ethos which refers to character. According to Webster, ethics is the discipline dealing with that which is good and bad with moral duty and obligations. In the words of Baumhart, ethics is concerned with the principles of human conduct. In general, Ethics deals more with good than with evil. An action is right or moral if it is consistent with a principle verified to the satisfaction of followers. Immorality is an action inconsistent with these principles. An action, whether it is moral or immoral, depends upon the society.

Thomas Garret has defined ethics as the science of judging specifically human ends and the relationship of means of those ends. In same way, it is the art of controlling means so that they will serve specifically human ends. From this point of view, ethics involves the use of any human knowledge which tells us about the relations among men. As an art, it involves techniques of judging and decision making as well as the tools of social control and personal development.

Ethics is different from law in two aspects. Law is concerned only with minimum regulation necessary for public order while ethics examines both the individual and social goals in all dimensions. Secondly, Law lays down the more perfect rules for the conduct of life. Ethics seeks to develop higher norms.

Meanings of Business Ethics

Business ethics is concerned primarily with the relationship of business goals and techniques to specific human ends. It studies the impact of acts on the good of the individual, the firm, the business community and the society as a whole. In other words it studies the social obligation community and the society as a whole, In other words it studies the social obligation which man as a citizen when he becomes a part of the world of commerce.

Business ethics deals with morality in the business environment. It involves moral judgements based on the understanding of the norms of the society. Ethics extends beyond the legal question and involves goodness or badness of an act. Therefore, an action may be legally right but ethically wrong. For example, a trader may charge a higher price for a product in a small village. Legally, he may be entitled to do so but normally this is not fair.

Relationship of ethics to organisational functions

The principle of ethics permeates all the operative and managerial functions that deal

with people. The human relationships extend to customers, employees, owners, suppliers, creditors, government and management. However, ethics applies primarily to the managerial function of actuating, getting people to achieve organisational and personal goals. And actuating applies to all other operative function. These decisions will affect the performance of both operative and managerial functions.

Ethical standards and religious doctrines

Each society men have differing concepts of religion governing their ethical actions and subsocieties may have differing concepts of the application of these religious doctrines. However, there is a core of religious doctrine in most civilised societies that acts as a kind of standard for human conduct. Robert Bartels mentions this core of concepts which are generally adaptable to practitioners of different ethics.

1. Doctrine of sonship

Man is the child of God, the image of his divinity and goodness. The individual person is held to be sacred and the right to experience the fullest possible development of his nature is a divine right.

2. Doctrine of brotherhood

Man collectively is a brotherhood of individual spiritually equal in the eyes of their creator meriting from each other's respect in keeping with this fact.

3. Doctrine of convenient

As God has kept his promises to man, we owe honesty, integrity and fairness to our equals.

4. Doctrine of trusteeship

All man possesses what he has, not for his selfish use, but as a trustee for the utilisation of it in the service of others for individual and general welfare.

5. Doctrine of grace

God's benevolence toward men is not earned by man, as though he could make any demands on it, but it is freely given as the gift of God and, therefore, we can hold no demands upon another which cannot be forgiven and forgotten.

Why good ethics in business?

There are two basic reasons for practising good ethics in business.

1. Conscience or moral responsibility

Most business managers would assert that they could not sleep at night with a clear conscience if they do not feel that their actions were right. A man's conscience serves as an innate judge of right and wrong behaviour.

2. Trust and confidence

The practice of good ethics is beneficial to business. The practice of good ethics tends to serve as a type of reinforcement in dealing with others. When ethical conduct is displayed, it puts some kind of confidence in the relationship. Good ethics are sound business insurance. It protects people in dealing with each other.

HISTORY OF BUSINESS ETHICS

1. Before Christ period

From the sixth century B.C. until the fifth century A.D., the Greek period dominated the history of ethics. Socrates was the first positive analyst of ethical ideals. His major contribution was the idea that a man's object was the fulfilment of his true nature. To the Greeks, business was a means to an end. They conceived the idea that the purpose of business was not blind production and acquisition of wealth but the improvement of human life. The notion of private property was offensive to the Greeks if it were used without regard to the interest of humanity and society.

Since the time of Jesus, ethics took a slight economic turn based on his teachings. Which his ideas were by no means economic, he constantly stressed the need for love and service dealing with fellow men. These teachings brought about the dividing line between law and good ethics which were treated as one and the same under the old Testament law of the Hebrews. Many present day codes of ethics are based on Judaeo christian concepts.

With the death of Jesus the fall of the Roman Empire, the concepts of ethics were maintained by the Church set the standards for ethical conduct saint Aquinas stands out as the church leader who drew up a code of ethics for the perfect life. He is famous for his concept of a fair price. Emphasis was placed on good conduct as a means of religious salvation. This good conduct became a moral obligation based upon religious doctrines of church, the law and the love of God.

2. Beginning of industrial revolution

In the beginning of industrial revolution, Adam Smith formulated the doctrine of laissez faire. This doctrine left the doors wide open to the unethical practices that followed. The self interest principles of Adam Smith prevailed with no government as a restraining force except the restraint of competition.

3. Sherman Anti-Trust Act

The passage of the Sherman Anti Trust Act in 1890 saw the first major invention in the ethical affairs of businessmen. The purpose of the Act was to prevent monopoly and to preserve the institutions of free enterprise and price competition. Customer and competitor relationships became the subject of the law. However, judicial interpretation of the Sherman Act, made it fairly ineffective.

4. The Clayton Act

The Clayton Act of 1914 was passed to preserve competition where it existed to restore it where it was destroyed to permit it and to spring up in the new fields. The Act prohibits price discrimination in the sale of commodities of like grade and quality where the effect is to injure or to prevent competition.

5. The Federal Trade Commission Act

The Federal Trade Commission Act, 1914 created the Federal Trade Commission which may attach unfair business practices when there is specific and substantial public interest involved in the prevention of particular unethical practices. The purpose of the commission was to restrain unethical practices that had developed the economic philosophy allowed by society in those days.

6. National Recovery Act

Between 1990 and 1920, several attempts were made to write codes of ethics for industries and companies. The National Recovery Act of 1930 has made an attempt to codify the ethics into law. Since the 1930's further attempts have been made by government agencies to regulate unethical practices.

Henry Dennison in his book "Ethics and Modern Business" stated that business management must have at least four criteria of professional activity before it can be on its way to the solution of ethical problems employment of expert intelligence, use of methods of science, living upto an unwritten code of ethics and being actuated by a motive of service of mankind.

SIGNIFICANCE OF BUSINESS ETHICS

Business ethics is concerned with the relationship of business goals and techniques to specific human needs. The need for business ethics is evident throughout the world. The legislative representatives establish statutes and administrative laws in critical areas where safety and personal welfare of the people can be affected by unethical practices. For furthering ethical practices, the concept of professional codes or codes of conduct have also assumed great

importance. The codes of conduct are being developed by trade associations with the following objectives.

1. Confidence of customers

Publication of a code of ethics is likely to improve the confidence of customers, employees, etc., in the quality of service they may expect.

2. Interrelationships of members

Business codes govern inter-relationships of members. Nowadays, business cannot be carried on without trust in the ethical standards of vendors, suppliers, financiers etc.

3. Safeguarding the interest of business people

To safeguard the interest of all those who deal with the business-stock holders, employees, customers, competitors, it is essential to have a code of ethics. The business people have to be protected from unethical ways of dealings and exploitation.

4. Rights of consumers

The consumer's right can be saved and served only when there is some type of moral binding on the business community. The consumer has the right to be informed, to safety, to choose and to be heard.

5. Social issues

Today business is confronted with major groups of social issues like people oriented management, ecology and environmental protection, consumerism etc. These issues are inter related and need that business should feel some obligation for meeting these issues.

FACTORS AFFECTING BUSINESS ETHICS

Today business leaders are well aware of ethical issues and hence they want to improve ethical standards of business. Self regulation is of better and has produced impressive results. Besides, the following factors significantly influence the managers to take ethical decision.

1. Personal code of ethics

A man's personal code of ethics is the foremost responsible factor influencing his behaviour. When a man becomes old, his attitude will be more ethical. At the same time, we should not hastily conclude that young people are unethical.

2. Legislation

When the businessman becomes too unethical and selfish, the Government will intervene and it has no other alternative except to prohibit such unhealthy behaviour of businessmen.

3. Government rules and regulation

Government regulations regarding the working conditions, product safety, statutory warning, etc., are all supported by laws. These provide some guidelines to the business managers in determining what are acceptable or recognized standards and practices.

4. Ethical codes of the company

When a company is larger, its standard of ethical conduct tend to rise. Any unethical behaviour on the part of the company shall establish reputation, public image and goodwill.

5. Social pressures

Social forces have considerable influence on ethics in business. If a company supplies sub-standard products and get involved in unethical conducts, the consumers will become indifferent towards the company. Such refusals shall exert a pressure on the company to get honestly and adhere strictly to the business ethics.

6. Ethical climate of the industry

Today modern industry is working in a competitive atmosphere. When a firm strictly adhere to ethical code, it can retain its position. When its performance is less than any other firm, it cannot survive in the field in the long run.

Coverage of business ethics

In order that business system functions successfully and brings benefit to the people, it must satisfy the following :

1. It must produce vast quantities of goods and services; but the Gross net product is a means to an end which is satisfaction of of the human needs.
2. Business leaders are allocators of scarce resources; they must realize their moral duties in this respect and must function as allocators wisely and morally.
3. They have a responsibility for product selectivity. They have a moral duty to produce goods and services to contribute to the well being of man.
4. The business must make an equitable distribution to each individual contributor of the greatest quantity of material things exchanged for his contribution of services and property to the system.
5. The business must be able to work with the broad concept of moral ideals. It must give status and function to the individual and it must give him justice of equal opportunities.
6. The business must be concerned not only with its responsibilities to suppliers of

capital but to the suppliers of service, to the supplier of police and fire protection and of sanitary facilities.

7. The business is not only expected to take a living for itself but also contribute to the society. A good citizen concerns himself with social and political matters and cannot live in isolation.
8. The firm should exist to supply income, power, prestige, creative satisfaction or a combination to those who work for or with it.

Principle of business ethics

The following are the basic principles of business ethics :

1. Human value grows with the increase in size of business to which it applies. Therefore the importance and dignity of human labour has not only to be acknowledged and accepted but practically applied to.
 2. The purpose of all economic activity is to meet consumer needs and to contribute to the well being of the community; for business it is not an end in itself but is only a means to achieve an end. The end is man himself and the individual. Therefore business has to contribute to man's material happiness.
 3. Service first and profit next is the motto which business should follow in practice; for this is based on the theory of trusteeship which according to Gandhiji expresses the responsibility of a business towards its consumers, workers, shareholders and the community, In other words, business must be held in trust legally and morally for the benefit of the people whom the business wants to serve.
 4. Business must be just and human as well as efficient and dynamic. Modern business has manifold responsibilities to itself, to its customers, shareholders, community and the state. The task of management is to reconcile and harmonise conflicting responsibilities.
 5. The social role of business can best be assumed in an atmosphere of freedom on healthy and open competition. A business man should follow principles in his business :
 1. Do not deceive or cheat customers by selling substandard goods.
 2. Do not resort to hoarding, black-marketing or profiteering.
 3. Do not destroy competition.
 4. Ensure sincerity and accuracy in advertising, labelling and packaging.
 5. Do not tarnish the image of competitors by unfair practices.
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6. Make accurate business records available to all authorised persons.
7. Pay taxes and discharge other obligations promptly.
8. Do not form cartel agreements to control production.
9. Ensure payment of fair wages and fair treatment of employees.

Application of principles of ethics

Principles of ethics can be applied in any dealings with customers, owners, other managers, suppliers, creditors, employees, government and even competitors. Edmund extended advocates the following advice concerning the application of ethics to some of the tough problems facing a business manager who wants to be ethical. There is a process by which men can perceive an act and this process is based on the following assumptions :

1. There is an order to the universe. This order is God's law and it represents ultimate reality.
2. Each man must exert continuing profound humility concerning the spiritual adequacy of his own ideas and actions.
3. Ultimate values must be employed as criteria by which man discerns the implications of alternative conflicts of values among the men concerned.
4. Every business situation involves conflicts of values among the men concerned.
5. God works through all men. Exchange of views provide a setting and a fair more complete comprehension of God's reality than any man can achieve individually.

Questions

1. Define ethics, Bring out its significance in business.
 2. State the evolution of business ethics ?
 3. Why should there be ethics in business?
 4. Describe the scope of application of principles of ethics in business.
 5. Bring out the factors influencing the managers to take critical decision.
 6. What are the basic principles of business ethics ?
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Lesson 2
BUSINESS ETHICS

Specifically human ends

In speaking of specifically human ends, we must avoid a narrow point of view. Men are complex beings existing in an extremely complex world. While we may be tempted to work out some simple answers, experience shows that such answers are not only frustrating but at odds with the way people actually are themselves. Man is not merely a creature made for power or pleasure. He is not purely and simply a social being but has a worth and dignity as an individual. All aspects of man enter into ethics. The problems, of course, arise when we have to harmonise the seeming conflicts between man's various values. This may be difficult but dodging the issue does not solve the problem.

The specifically human goal is the full human perfection of the human being as a person. This means that the person is not a means to the perfection of society, the state or anything else. In this view, societies are means to the real perfection of the individual even though they may contribute to this only indirectly. Societies, of course, are very important means and the individual who harms social good can injure countless individuals. It is important to make clear distinctions lest individuals think that societies exist for them alone and not for all individuals. Although the person is to be treated as an end, some of his professions, talents and activities must be subordinated to others. For example an individual's work may be used as a means to the good of a company provided that personal dignity and essential well being are respected. So too, a man's time and wealth may have to be sacrificed to society so long as the person himself is not reduced to a mere thing. The full significance of this will emerge as we develop the difference between the necessary and useful goods and the major and minor evils which can occur in human life.

There are gray areas where it is difficult to say whether or not the person or merely some accidental aspect is being used as a means. However, reflection and experience can clarify these areas or at least reduce them to manageable dimensions. There was a time when employers considered a contract as just even though it might involve the brutalisation of the worker and his family. Thus ethics has the sharpening of our knowledge about the work practice affecting the dignity of the individual human being.

It should be noted that much unethical activity is rooted in a lack of respect for our own personal dignity. The man who sees his worth identical with his earning power will tend to look at every one else in the same way. The result is often a neglect of the rights of those who must work with or for him. Concretely, an understanding of ethics demands an appreciation of

what it means to be truly human. This understanding is not easily attained for momentary desires and narrow views of self interest blind man. If a man does not have this breadth of vision, this book cannot give it to him.

Those who have a fairly complete idea of what it means to be a man will see at once why it is necessary to be ethical and to study ethics. The reason is not that good ethics and good business always coincide. Business efficiency is only a part of life. The reason is ultimately found in the fact that both the study and practice of ethics contribute to our growth as men. Unless we have an ethics that puts business into total framework of both individual and social life, we may end up as unsuccessful businessmen.

Responsibility in a general sense :

Evil is an element which hurts the individual or the institution necessary for his growth. The factors promoting the growth of the individual and means available to him is a good. Such simple statement will not solve our ethical problems. The things done by us will have harmful impact on ourselves or others. If we were responsible for all the evils that flowed from our activities, we would despair of ever being ethical. Even though an advertiser prepares his advertisement copy carefully, some people may misread it and the advertiser cannot be held responsible for the same. Similarly, when an employer dismisses an incompetent employee, he knows that the man's family will suffer. The question now arises whether the employer is responsible for these effects or not.

The answer to the above question was found in the very traditional ethical theory which states that a man responsible atleast for what he freely will be whether as a mean or an end. To a large extent, the theory is found in civil law as well as in ethics. When a person expects any evil from his operations, he will not be held responsible. For example, when a drug manufacturer foresees that some people will be killed by his drug, he will be excused from his responsibility on the ground that he does not cause their death as a means or an end.

Types of evils and consequences :

At the very start, we must recognize that there are different types of evil consequences. Some evils strike at the very dignity of human being or at means which are necessary for human growth. When a man's health is destroyed so that he cannot work, it will be a serious evil. Similary when a man loses his job and his livelihood was affected completely, it is also a serious evil when a greater harm is expected but without intention, a person will be held liable for the same.

When a person expects both the means and ends to be good, even though he expects some unwilled side effects, he will have a proportionate reason for doing so. He will not be responsible for unwilled side effects if he has sufficient reason for risking.

For unethical conduct, this principle should not be used properly, before using this principle, it is to be decided whether the end justifies the means when a man kills an innocent man for saving thousands of lives, it cannot be justified as correct. At best, the end can supply me with a sufficient reason for permitting side effects which are not means to an end.

When a person foresees a certain risk which will not be a means or an end, he may permit the evil. When he foresees a probable risk, which will not be a means or an end, he may assume the risk evil. Hence there is no question of risking or permitting what is willed as means or end. If the answer is so, the evil is a means and the principle of proportionality does not apply.

Honest businessmen use this principle constantly. The advertiser who has prepared his copy carefully foresees that some people may misread the advertisement. By misreading the advertisement when the reader acted unethically the advertiser prepares his advertisement with the aim of deceiving readers as a means of keeping his business going, he can have to proportionate reason is using civil act as a means.

Hence the principle has to be modified it is to be truly useful in making decisions. Firstly, it is necessary to have more precise norms on judging proportionality. Secondly, it is essential to investigate a special case involving minor evils.

PROPORTIONALITY:

Proportionality is to be judged by :

1. Types of goodness of evil involved :

A person, at the time of carrying out an activity, may expect both good and bad outcomes. In such cases, it is his duty to compare both outcomes and when he finds that good outcomes are superseding the bad outcomes, he can justify his activity.

2. Urgency of the situation :

Necessity is influenced by the urgency of the situation. For example, a business man has to decide whether he has to give importance either for research or for pay. Research can be postponed at anytime without affecting anybody. At the same time, pay cannot be postponed as it is the basic need of life.

3. Certainty or probability of the effect

Every major innovation has some risk of serious financial loss. However, the risk can be justified if it indicates a high probability of increased growth. When a work involves the risk of physical harm, it can be justified by the necessity of earning a living. The risk of physical harm is not a means but is undesired by anyone.

4. The intensity of one's influence on the effects

When a man carries on an activity, he should consider the intensity of one's influence which is the cause of evil side effects. When an employee is absent, he may be teased by the employer and the employer expects some hardship in the family. The major cause is not the employer but the employee who made default in attending the duty, has created the situation. The employer need not bother about the hardship to the family of the employee because it does not help the employer in any way.

All the above factors should be considered in making judgement about proportionality. When these factors are considered, it may narrow the area of doubts.

5. The availability of alternate means

If the good effects can be obtained by a method which involves lesser evils or no evil side effects, it would be advisable to choose the means. When a lesser disciplinary action has not produced the desired results, the employer can proceed with next step. It would be unethical to continue AR, economic system which was inefficient. To eliminate evils, a proper system can be evolved to by business man.

Major physical evils

The principal of proportionality applies to the risking of permitting the evils of all sorts. It can be used only when the object to be achieved is good or the means of achievement may be good.

The following are some of the examples to state some evils have a proportionate reason.

- A) parent, showing the stove to his child, informs with good spirit, not to go near the stove at the time of burning.
- B) The employer curtails the wages of worker who is consistently late in the hope that the loss will reform him.
- C) A government destroys millions of tons of wheat to support prices.

In the above cases, there is a proportionate reason for doing an activity. Writers on ethics have attempted to classify ethics in different ways.

a) Physical evil

When an evil does not harm the dignity of a man, it is physical evil.

b) Moral evil

When an evil involves willing something which adds with the dignity of a man, it is moral evil.

c) Major evil

It is an evil which destroys the goods necessary for an individual or society as well as the violation of rights.

d) Minor evil

It is an evil which involves harm to a purely physical good or when the goods are not considered necessary for the individual and society, the evil is minor evil.

Hence at the time of classifying the types of evils, it is essential to study in order to determine the exact nature of some acts. We can conclude by saying that.

- a) It is unethical to will a major or moral evil either as a means or an end.
- b) A physical or minor evil cannot be permitted or risked but can be willed as a means if there is a proportionate reason.

Problems :

In the business world, it is difficult to decide whether the evils are major or minor. Good ethics demands that an individual make a continued effort to arrive at objective evaluation of the effects of his acts on individual and societies. The neglect of this obligation is a source of unethical conduct and considered as a major problem in ethics. The following are the two examples to illustrate the dangers of subjectivism different from objective considerations.

- a) An employer is installing a new process which is very dangerous. There are safety measures available but he does not use them as their cost will reduce the profits. It is an example of unethical act as more importance is given to profits than the life of workers.
- b) An accountant tampered with his records to conceal his own mistakes and his fraud led to costly errors. He argues that he will lose his job if caught and so he justified ethically. He has also agreed to accept the consequences of his mistakes. If the harm to his employer were relatively small the employee is violating his contract of doing the honest work.

In addition to the above, there are some other dangers of self-deception when the impacts of an act are not visible and so they are not considered. The problems may have the effect on over pricing and false advertising. Similarly when the plant is relocated, it may be regarded as a major problem.

Law, custom and public opinion do not completely determine the ethicality of our actions as they are liable to be concerned with moral requirements. However, all can be valuable in achieving an evaluation of impacts. They can also help the business man escape some of his very natural bias.

While trade customs often embody the results of sound ethical theory, they must be examined with care. The custom may have developed to protect the interests of only one group involved in business with the result that they command acts which may be harmful to other groups.

Public opinion also needs to be studied carefully. It approves or condemns certain business practices because it is unaware of the real issues involved, it will often indicate to the ethical businessman that he has overlooked some relevant factor.

RIGHTS :

A right is a claim on other people. It arises from the relationship of the individual to some good which is either necessary or useful for his perfection. The rights of a human being should be given due importance and he should not be injured for claiming his right. In general, rights can be classified into.

a) quasi absolute rights

These are the rights which a man claim on the basis of his needs.

b) Relative rights

These are the rights which should not be disturbed in the pursuit of even useful goods.

When a worker is forced to work twelve hours a day, he may be called as a human being who is working hard. When he does not work for the stipulated hours, restrictions may be imposed by the employer to make him work. For example, when workers are compelled to wear helmets, even though they dislike it. The management can enforce its right wear helmets. When they are given freedom either to use or not use, there should be a reason for limiting it.

When a person violates a right, it may be a slight injury to the feelings, property or freedom of another. In reality, the violation of a right involves the denial of the claims or human dignity. It involves placing some more thing above the human person. It should be accepted that when a person does harm to another, it will have its reflection on him.

Some rights are inborn; a man has them for merely he is man. The right to life is a prime example. Other rights came into existence only when some act has created a title of particular thing. A man has a right to a plot of land only after a contract has been made. This point is extremely important, for although a man has a right to work, no particular individual has a corresponding obligation to employ him. In short, there are some rights which are claims against society as a whole rather than against particular individuals.

Co-operation in evil :

Business ethics involve co-operation in evil. When this co-operation includes willing the evil either as a means or as an end this is an unethical act. When a person does not will the evil either as a means or as an end, he may have a proportionate reason for risking or permitting harm. For example, when a person is preparing fraudulent report, he is co-operating in an unethical act.

A person who is in the managerial capacity should stand as a pilot for his subordinates. He should see that his act should not encourage his subordinates to engage in unethical conduct. When a harm may be done, the employee may misinterpret even an innocent act. Hence when the superior's act is actually ethical he can permit the harm for a proportionate reason.

Location of responsibility :

A person can be partially responsible for actions whose primary cause is found elsewhere. His responsibility may be shared with other person. He is responsible for his share of the evil when he risks it without a proportionate reason.

A person cannot evil or can prevent only at a disproportionate price. In such a situation, he may be excused temporarily. The obligation is transferred into duty to work for the correction of underlying situations. A minor employee has no way stopping his superior from stealing but he can make them difficult. In these cases, where he cannot stop the evil, he is at least obliged to mitigate it.

The Gray areas :

There are gray areas in business ethics as in the nature of life. Our knowledge should be accurate enough to solve all problems immediately and clearly. In spite of this, ethics can help in reaching correct directions in the majority of cases. The gray areas themselves are not excuse for unethical conduct so much as challenges to our intelligence. Thought and study can remove much of the darkness and narrow the gray areas to a small proportion of life. As intelligence is one of the necessary means to the perfection of the individual and society, we have a real obligation to study ethics.

Practical application :

In ethics, the beginner is confused by a lot of factors which must be considered in making judgements whether an act is ethical or not. Only the experience can avoid a lot of difficulties and there are systematic procedures for overlooking the same.

For example, a company wants to market a new sleeping pill. When it undertook re-

search, it proved that it has harmful side effects on unborn children. Hence the company put a small label stating that the pills are not to be used by pregnant women. The directors felt that this warning is sufficient for the users.

Postive obligation :

A man is having postive obligation to bring something into existence. In a most general sense, he has a positive obligation when something is necessary for his own human perfection, the dignity of others or the necessary operations of society. The obligations are not absolute since the urgency of one may cause the postponement of another. In more general sense, an individual may have proportionate reasons for not fulfilling postive obligation at a given moment. This makes positive obligation different from negative obligation to avoid all unethical acts. Thus the extreme needs of workers to pay wages at a certain level may excuse the management from paying a dividend. When a firm pays wages at a certain level, it will help the workers necessary for subsistence of a large number of people. Gererally, a situation must be judged in terms of certain factors. Hence, postive obligation is limited by the following factors.

- a) A person should not do a good when he expects that harmful effects outweigh the good effects. Hence he may be forbidden to do so such an act since he has no proportionate reasons for permitting the harm.
- b) When a person has the desire to help an other person, he will not do so because the other person will not help him. For example, when an employee refuses to follow company rules and regulations, he may not be liked by the employer.
- c) A person may not be obliged to perform a postive good act if someone else has a primary obligation and is willing fo fulfill it. For example, a firm need not provide for the education of worker's children since the workers and the Government are responsible for this. Obligations do not come into existence merely because there is a need but they are assigned to some system. In business ethics, a lot of problems arise due to the fact that nobody takes responsibility for certain necessary activities:

Negative obligation :

While postive obligation deals with the duties of a person to bring something into existence. Negative obligation is concerned with linking of means and ends. A company, for example, wishes to market a product to keep the company in existence. In the above example, the company's means is to market a product and end is to keep the company in existence.

Decision can be taken by categorizing the situation into three stages. In the first state, the desired means and end are decided and their respective good and bad effects are forecast.

On the basis of the forecast, if a major bad result is expected of the means or end, the analysis must be stopped immediately. Otherwise we may proceed to the second stage of analysis.

In the second stage, the probable and definite side effects, their good and bad influence, the probability of their occurrence and the urgency of goods dealt will be analysed. On the basis of analysis there is no sound reason for accepting either a minor or major evil, the analysis should stop forthwith. If there is sound and proportionate reason for permitting evil, we can proceed further.

In the third stage, we analyse any alternative equally good method of getting the goods produced with less evils. If any alternative is found, we must use that if there is no alternative, we may proceed with the production because there is sound reason for permitting evils.

For example, if a company wants to market a sleeping tablet for keeping the company going, it may affix a label warning the pregnant women not to use it to avoid bad effects as the means. Therefore, everything desired will be good and the company proceed with its dealings.

If the company succeeds in providing jobs to five hundred workers but fails in the result of giving birth to deformed children by the pregnant women users, the first effect is good for workers. The second one is bad for mothers and children. The bad effects are due to the careless use of some pregnant women without going through the label. However the harm involved is serious. Therefore, some more serious warnings must be given to keep away the pregnant women from using it but serious warnings would drive always others also from using it. Therefore, the company should have sound reason for doing everything possible to reduce the risk.

If the company fails to reduce the risks then its existence is a possible margin with a larger company.

Questions

1. What are the types of evils found in business? Give examples.
 2. What are negative obligations? Give examples.
 3. Distinguish between positive and negative obligation.
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Lesson 3**ETHICS IN PERSONAL MANAGEMENT****Hiring :**

The ethics of hiring and firing are governed by the dignity of the worker, the contract between the employer and employee and by the purpose of the firm. The management and personal manager must guard against discrimination, breach of contract and should maintain an atmosphere to boost the morale and efficiency of the workers.

A firm hires man in order to increase its production and productivity. In case of family concerns jobs may be offered to the relatives and friends but even then the efficiency of the individual should be considered. The ethics of hiring is largely governed by the norm of efficiency. A man is hired for the benefit of the firm on the basis of his ability and willingness to serve the company and the society.

A manager may discriminate between applicants only on the basis of job related qualifications. He has to treat people equally while hiring them. He should not act prejudicially or irrationally which is ethical.

These duties have been written in the Civil Right Act of 1964. The Law admits that religion, sex and national origin can be bonafide job qualification in some special and carefully defined situations. Race and colour are never admitted as job qualifications. There might be some special cases where colour could have something to do with jobperformance but in general the law is sound.

The law extends the area of obligations in case of hiring the employees. For example, in the absence of law, the manager may hesitate in hiring a NEGRO; as he may expect service troubles from his prejudiced employees. Today such a fear does not exist.

Problems in hiring :

1. Deciding the job qualifications.
2. Hiring process may be time consuming, cumbersome, and a costly procedure. Inviting application, processing, conducting examinations, interviews, training and job induction take much time and cost.
3. The ethical elements in hiring may be affected to a certain extent by the practise of preferential hiring and favouritism.

4. Political pressures directly sometimes lead to problems in hiring.
5. At the time of firing fresh employees, there may be problems in fixing salary. Employees expectation may be high and the company may offer a low amount.
6. In some cases, the employees may be asked to sign a contract by the management which compels the employees to continue in the same job for some years. Even the employees get better opportunity in some other organisation, they cannot join.

Preferential Hiring :

In the present emotionally changed atmosphere, many claim that the companies should engage in preferential hiring of Negroes and other minority groups. The reason is that the company has the obligation to make restitution for the sins of the past. Preferential hiring is a sort of providing employment opportunity to minority groups and weaker sections of the society. Such step can help up to solve national problems. The Civil Rights Legislation and goods business forbid preferential hiring as it is not a stand against government and industry. Similarly training programs should be open to all. Companies can introduce the system of recruiting its employees from schools, colleges, universities and technical institutions. But in the name of preferential hiring the friends and relatives of the management may be given special opportunities to serve in the organisation even without basic qualification, such an action is termed ethical which do harm the qualified candidates. Likewise in giving promotion, training and career advancements preference may be given to a particular groups which affects the good ethical atmosphere of the institution.

Nepotism:

Nepotism is potentially a case of preferential hiring. It may have a legitimate place in the firm if the hirings look not only to efficiency but to provide jobs for relatives. In these cases the preference can be justified to a certain extent by the peculiar needs of the firm. In all other cases nepotism is unethical only if it involves real favouritism or discrimination. When the relatives has qualifications equal to other candidates the decision should be based on a realistic evaluation of the effect of this hiring on the firm. A business man must ask himself the following questions.

- A) Would hiring this man create jealousy among other workers?
- B) Will it discourage qualified outsiders from seeking work with the company?
- C) Will it create problems in firing and demoting?
- D) Will it affect the relations with other relatives?
- E) Will it cause problems inside the family?

Special problems:

Theoretically speaking fair employment practices should pose no problem to the capable business man. But in practice the businessman faces a lot of problems. Hiring procedures by union who do not obey the law, discrimination shown by employment agencies, pressures from close friends and relatives, recommendations from the office bearers of the association may entangle the businessman.

All problems of nepotism cannot be solved on the table. The basic necessity is the business man should abide by the rules and regulations in giving employment. He should not have any fear of mind in fixing persons for employment.

We should stress the fact that many problems cannot be solved by isolated individuals or by businessman alone. Effective remedies can be arrived only when there is broad social co-operation. If discrimination in employment is removed it helps in equalizing the opportunity.

But, however, it does not do away with the unnatural inequalities arising from poor education and poor family background. Such inequality problem cannot be solved by the business community alone.

Therefore with the help of businessmen the social thinkers should design plans and programme to attack the problems in the gross root level.

Promotion :

The principles which are applicable to hiring are also applicable to promotions. Job qualifications should dominate all decisions in most of the cases. Unfortunately, the existence of demands for the recognition of seniority complicates this question.

The expectations of workers whether reasonable or not may change the significance of seniority. If workers expect seniority to count, the management's disregard to their opinion may injure morale. On the other hand, if too much importance is given to the length of service, only the management may discourage real initiative and lose talented young workers and executives.

The management faces the problem deciding whether to promote within or to go outside the company. For this purpose the management should look only to competence. He must consider the impact of his decision on his employees. Here also carefully written policies with proper understandings can do much to control the expectations and make sound ethical and business decision. Some difficult problems will arise when one man has been promoted to a post or job which he cannot handle or which will do harm to his health. When such a man

is demoted, the pride and prestige of the man is affected, and his income is also reduced. It also shows that the management fails in its administration. On the other hand if the man is allowed to continue as the subordinates, the assistants and the company as a whole will suffer.

Under such circumstances the management may opt for compromises, sometimes the man is given an assistant or he may be moved to horizontal post without any change in his income.

In short there should be a dynamic policy for promotion and at the same time there should be tactful method of demotions also.

Our remarks on special problems and promotions indicate that primacy of job qualifications is not absolute. The principles should be adjusted to the concrete possibilities.

Firing :

In the Absence of an explicit written contract at will both the employer and employee had a right to terminate or cancel their agreement. Apart from legal provisions there are implied contracts which limit the right of both employer and employee. In many countries there are modification in law as far as hiring is concerned. Good business ethics demands the intervention of law and explicit contractual provision.

The employer's obligations in case of firing is as follows:

- a) He must terminate or dismiss the employees only for a proper cause.
- b) While firing the employee, due process should be followed.
- c) He must mitigate the harmful effect of dismissal, due attention being given to proportionality.

Just Cause :

The term "just cause" is a vague term which certainly includes only factors pertinent to the running of a business.

For dismissing the employees, there should be just cause. Personal prejudice employer's convictions and annoying mannerism of the spral employees are not just causes of dismissal. Just causes include the following :

- a) Mechanisation.
- b) Reduction in output.
- c) Violation of discipline.
- d) Conducting harmful act on others.

- e) Negligence of.
- f) Frequent illness, prolonged absenteeism.
- g) Lazy work force
- h) Automation.

While dealing with lazy workers the company should see that lazy workers do not rob the business and demoralize the other worker's overall efficiency. Similarly dishonest worker by his act of theft induces other workers also to do the same action. While evaluating the situation, the sentiments should not be given weightage.

If you allow dishonesty to continue then, reforming the company becomes difficult and great task also. Company should exercise greater care and feel more serious while dismissing an experienced staff than an apprentice or a temporary worker. If anything goes wrong in this field then the morale of the senior staff in total will be affected which affects the normal functioning and productivity of the organisation, so the management runs with heavy risk while terminating the experienced staff.

Therefore while drawing the policies due care should be there to reduce dissatisfaction. Some companies, for example will not dismiss a worker over fifty who has been with them for atleast twenty years except for total negligence or incapacity. In some other companies the employees above fifty may be given less burden some jobs due to the reasons of old age.

Due Process :

Due process safeguards the interest and rights of the employees. It increases the morale of the workers. At the time of dismissing the employees the management should think the effect of such termination. There should be due process or a procedure should be followed to give an assurance to the worker that the decisions are not made arbitrarily and thus increases the confidence among the workers. In addition due process increases the objectivity of the decisions.

For many employers dismissals are a highly emotional subject. Some employers go to the extreme of dismissing the employees for a small fault on the part of the employees. While coming to such decision, the employer should consider the family size of the employees and the length of years of services to be completed. At the same time the employer must remember to protect the interest of other workers and customers. Therefore, he has to be careful while terminating the employees.

The exact process to be used cannot be determined easily. Elaborate measures will be both unnecessary and too costly for a small concern, while too simple procedures for termination in a larger organisation may be useless. However, a normal procedure to be followed may be agreed between the management and the employees either, directly or with the help of trade unions or with the help of Government and Government departments.

The normal stages in due process may be as below:

- a) Giving proper warnings to the workers who are negligent, who violate rules and regulations.
- b) Even after such warnings, the procedure for suspension may be taken. At the same time, he may be asked to give his explanations for the fault he committed.
- c) Conducting departmental or judicial enquiries, to ascertain whether there is any fault or not.
- d) If these charges are proved with evidences, termination procedure may be followed.

While terminating the employees, the views of the judiciary and Government may also be considered.

The obligations of the employees :

For successful and peaceful working of the company the basic thing required is harmony between employer and employees. In order to avoid unnecessary problems, there must be an implicit contract of employment between both parties. Like the employer, the employee should co-operate to maintain welfare of the company and the fellow employees.

Even though he is free to quit-at the end of his formal contract, but ethics demand that he should give adequate notice to the management in most cases. In case of resignation the management expect a justified reason from the worker for his quitting from the company.

Other obligations of employees :

- 1) Protecting the interest of the company.
- 2) Respecting the expectations of the fellow workers and society in general.
- 3) Respecting the code of ethics of the employees.
- 4) Keeping punctuality in their work.

Carefully worked out policies of the company can prevent many problems. The policy of the company towards layout should be the result of literal agreements if it to be truly fair.

A careful policy not only regulates the expectations of the employer and employees but gives an assurance that the decisions will not be taken in an arbitrary manner.

Our insistence on the need for bilateral agreements run counter to the idea that management rights extend to everything that is not explicitly denied to them by law or contract. We accept that the management has and must have the power to make independence judgement for some of the problems. Men or workers in some sphere are not willing to enter into contracts with managements lay down all conditions and reserve the right to interpret the contract.

Under such conditions there is promotion for unionism and collective bargaining. But all problems cannot be solved by collective bargaining since anything can be effected by power.

Among other things men feel a greater obligation to abide by free agreements with the result that truly free contracts assure greater cohesion and co-operation. As Peter Trucker has noted workers can be attached strongly even to poor programs and procedures if they are their own.

The reason for demanding bilateral agreements is not economic but ethical. The mere ownership of the property does not give the management the authority over the workers who handle the property. Peter Trucker also pointed out that there are some areas in which the management is not competent to take decisions.

Lesson 4

WAGES AND WORKING CONDITIONS

The ethics of hiring, and promotions are a question of equal treatment of persons having equal qualifications required for the job. But the ethics of wages and working conditions are not simple to follow. The ethics of wages are decided by workers needs and the functioning of economy as a whole. The fairness of wages and the decency of working conditions are decided by so many factors and hence many writers despair to establish any principles.

However, there are few guidelines and we need some more effective rules so that disputes between management and workers can be solved quickly timely and with justice.

Wages versus Income :

Fair wages to the employees is the principal factor in an organisation. The fair wages are expected to be sufficient to the worker and his family in order to live in a decent manner, with fundamental comfort according to the increasing standards of the society. Such wages should include the possibility of making some provision for meeting his family's medical expenses, meeting the old age expenses, providing proper education to his children.

It is ideal to fix wages in such a way to include the above. But in practice even in case of a wealthy economy there are so many obstacles. For the businessman wages are a cost to be kept low and he is very much interested in introducing an incentive system in wage payment to increase production. Whenever there is a demand for increase in wages, immediately some of the business people think of replacing workers with machines.

In some cases a businessman is able to offer fair wages to their labourer only for a short period.

Some workers due to their poor planning do not save funds for their needs and may not provide adequate funds for sickness, old age and education to their children. Therefore for fixing fair wages there must be broad social co-operation and in addition some political control. Hence fixing fair wages cannot be the exclusive responsibility of the business. Of course this theory has not been accepted completely, it has been recognised in practice.

The workers may be helped in the following ways in addition to wages:

- 1) Compulsory accident insurance.
- 2) Unemployment compensation.
- 3) Medical assistance to the aged.
- 4) Public education.
- 5) Free lunch programme for the children.
- 6) Family allowances for children.

For introducing the above schemes we need co-operation from the workers, unions, government and management.

FAIR WAGES

Introduction

The ethics of hiring, firing and promotions are largely connected with the principle of equal treatment of persons having equal job qualifications. The ethics of wages and working conditions, the needs of the employees and the functioning of the economy as a whole. As so many factors enter into the ethical judgement of fairness of wages and decency of working condition, many writers found it very difficult to establish a set of principles. Therefore, we need fixed guidelines for reference to settle the disputes in companies with wages and working conditions.

Fair Wages

Fair wages is that amount of wages paid to the worker which is sufficient for him and his family to live in a decent comfort according to the increasing standard of the society. This comfort includes some provision for sickness, old age as well as the education of children. In the real world for the business men, wages are a cost to be kept down or at best an incentive used to increase production.

Even if the workers are paid an ideal minimum wages, in some cases, the worker may not be able to make provision for sickness and old age. Inflation may take major part of wages while maintaining the decent comfort.

These facts lead to two conclusions :

- a) Income rather than wages is a significant concept.
- b) Adequate income cannot be supplied by the business man without broad social cooperation and some political control. Social security, unemployment compensation, compulsory accident insurance, medical assistance to the aged, public education, free lunch for children are some of the social means used to help the workers to arrive at a minimum income, no matter how low their wages.

The factors determining fair wages

The fairness of wages cannot be established only by considering the needs of the workers and their families. There are other factors also to be considered :

1. Wages are to be determined exclusively in terms of market for labour, that is, demand and supply of workers.
2. The contribution of workers to the company should be given weight while deciding the wages.
3. In many cases while fixing fair wages, power of unions and their domination play a significant role.
4. In addition the market for the product is duly considered in fixing wages.
5. Government's policy, wages in the local area, wages paid by similar companies, in the same field, age of the company are also some of the other factors to be considered.

All the above factors should be considered duly for fixing wages. If any one is not considered, it may result in labour unrest.

A fair wages as distinguished from a fair income can be determined by a fair work contract. A fair work contract depends on the presence of free and fair negotiations between

the management and workers. Even though the concept is sound we have not evolved a social mechanism for taking care of the interest of third parties.

A contract is truly fair when both the sides are free and conscious of the implications of their acts. In the name of freedom there can not be over enjoyment. If the agreement is not reasonable then there is no freedom. There is no true freedom when one or both parties have used fraud, power, passion or ignorance to bring about an agreement.

In our economy there are big companies and large unions, small companies and no unions which lead to unfairness in wages.

In some cases even though the contractual wages are indisputable but the business man as a citizen should provide beyond the minimum of the contract. For example, in case of schools and hospitals which not only pay low wages but make little effort to raise them. Some business people move to other areas also to exploit the cheap labour and beat down those who want to bargain better.

The owners, stock holders, consumers may have some claim on a business. Similarly the claims of the workers cannot and should not be ignored.

There are some authors who are of the opinion that the idea towards wages is only theoretical and very difficult to enforce in practice.

Ethics in wages and wage payments :

1. Wages should be fair to both parties.
2. There must be a work agreement.
3. Under no circumstance the inefficient is paid more than the efficient workers.
4. Idle time wages should be paid if it is not the fault of the employees.
5. In case of overtime, double the normal wages should be paid.
6. Vouchers for wages should be for the actual payment of wages only.
7. Wages must be paid in time.
8. The management should be proper in contributing their share of P.F. and ESI to the work force.
9. In case of lay off salary as per payment of wages act should be paid.
10. During suspension periods, legitimate salary should be paid.
11. While fixing standard time, enough allowance should be provided for tiredness and time needed for getting instructions.

12. Safety of life should be taken care of.
13. When paying wages, the officer making payments should be courteous to the labourers.

Profit sharing :

This is a method of remunerating the labour in an organisation. In addition to regular salary and incentives, the workers may be given a share in profits earned by the organisation. There is substantial increase in the number of firms which provides profit sharing. However there is a question whether the employees have a right to share in profits, The answer depends on one's definition of profits.

It is generally argued that when the employee is receiving fair wages, he is not entitled to share of profits. The reason is that he has made an agreement with the company for wages only. Of course the workers can have the share in profits provided the employer or management is willing.

Now-a-days there is a demand from the workers side that there are eligible for wages and share of profits. For this purpose the employer expect much contribution from the employees by way of higher production.

The employees claim a share of profits on the ground that they had brought this profit to the organisation by their productivity. However it is criticised on the ground that the employer and his capital is the main reason for such a profit. Hence one cannot clearly take a decision in this aspect.

Stability off work:

Workers expect stability in work and job security When job security in employment is not assured it paves the way for unionization. The reason is that he very much fears about insecurity. That is a reasonable fear, because worker cannot load his life or provide for future if he is in doubt as to the security of his work and income. Although union negotiations for unemployment compensation have reduced the severity of the evils of insecurity, the problem becomes more, acute by many factors. They are.

1. Automation.
2. Growth of seasonal industries.
3. Plant relocation.
4. Changes in economic life.
5. Change in fashion.
6. Change in buying behaviour.

7. Management policy.
8. Technical advancements.
9. Periodic lay off.
10. Seasonal variations.

It is an obligation on the part of the employers that he should run the business continuously and provide stability of work by proper planning. But still there are certain factors which cannot be planned in advance.

The employer should view the stability of work in the light of social dimensions and social justice etc.

Working Conditions:

The study of labour relations indicate that the working conditions are significant as wages and job stability. There are many ethical problems attached to working conditions/ However legislation and conscience have solved many problems. Today there are cases where migrant workers are housed like animals and no consideration given to the health and education of their children.

A worker should be treated as a human being, he or his family should not be exposed to physical, moral, psychological harm without proportionate reason. There are cases where nothing can be done to eliminate the risk and the cost of eliminating the risk is high. However "Safety of workers is ethically important".

There are some cases in which physical harm is obvious. But moral and psychological dangers to workers should be avoided. In order to have efficient functioning of the business such dangers should be avoided by the managers totally.

Managers and supervisors should exercise great care in maintaining peace in the organisation. Some of the workers or individuals may use the company as a place for selling their lottery tickets, which may be fraudulent, there are some supervisor who take the services of company employees for their personal and domestic work, and there may be employee who are concerned to co-operate in all sorts of unethical practices by threatening them. For all the above things there is no statistics or data and such situations are going on regularly.

The boss or the management is not an almighty father who should control the private morals of his employees but definitely he should not be there without understanding what is going on in his firm or company. He should be aware of the happening in the company. He should allot time for helping the young workers by his advice, help and protect. If the manager or boss fails to act in the right direction there arises the problem of favouritism, office politics. etc.

While exercising power, to command, reward, and punish the worker, the manager should assume the responsibility of respecting the rights and conscience of others.

When managers force, order and encourage other employees to co-operate in unethical activities which is doubly wrong, in one sense they do harm to others, and secondly they lose their total prestige and trust worthiness in the company.

For example a sales representative, who has to be away from the house for many days due to official work, his family life and social interaction with neighbours will be affected. He will have great difficulties in fulfilling his duties as father and husband. So ethical employers will have to consider the welfare of the family of workers while deciding their schedules.

Job transfer also involves much expense and increased living cost. An ethical manager or boss will make necessary allowances for transportation and cost of living adjustment. Such an activity brings fairness and creates good internal relations.

Job satisfaction :

The company which wants to maximise profits should aim at increased production. This is possible only when the workers work with fullest satisfaction. Workers will be satisfied when they are paid not only fair wages but also they should be recognised. Job satisfaction is connected with human interest and psychological factors. He is satisfied only when his services are recognised, his innovations are appreciated. Such things give him mental fulfillment. Unhappy human being cannot do anything good to the society.

The management should understand the areas to satisfy their employees.

Work occupies a large part of a man's days. Unless his job is humanly satisfying not only his productivity but his whole life is incomplete. Work satisfaction improves his morale and motivate the workers to produce more and earn more.

To satisfy the employees in the low level management, middle level management, authority should be given. When proper authority is given naturally satisfaction arises in the minds of workers or employees.

Likewise there should be suitable system of incentive schemes to reward more for the efficient workers.

Health and safety of the customers :

The relationship of buyer and seller is crucial in business economics, law and ethics. The success of economic system depends upon how we view the relationship of rules we adopt to govern the system. Some view that the customer is a "Victim" and the seller a "Villain". In case of buyer and seller both parties have certain set of duties and rights.

Here we discuss largely the obligation of the seller to the buyer or ultimate consumers.

Healthy and safety:

The seller must respect the rights of buyers of his products. The seller should not do harm to the buyer as a means of making profit and similarly seller should not place the risk and buyers without proportionate reasons. The manufacturer of drugs, Pharmaceuticals, cosmetics, eatables (food) milk powders should exercise extra-ordinary care in the production and sale of their products.

The difficulty in applying the principles centre around the determination of what constitutes a proportionate reason for taking risk in the absence of legislation. So by giving warnings alone to customers does not solve the problem.

Further where legislation can reduce risk by controlling the sale of a product a given firm has an obligation to work for the passage of the law. Therefore maintaining proper quality control measures by the manufacturing organisations is definite obligation on the part of the producers. The cost of such control is necessary cost and not a means of gaining good reputation.

Cases involving products safety are still numerous despite the existence of legislation and increasing care on the part of the businessman. The problems are made highly complicated because of self interest and additional legislation is needed for that purpose, However past experience reveals that both public and business have profited from the existing laws in the area.

Health and safety to consumers can be achieved by the following measures:

- a) By using good quality raw material for production.
- b) Maintaining quality.
- c) By using modern methods of production.
- d) Products should be packed well and not exposed to open light.
- e) By adding proper preservatives.
- f) Use only permitted colours essence in drinking items.
- g) Sale of expiry and nearing expiry goods should be avoided.
- h) The products manufactured should get the certificates of "AGMARK" and "ISI"

Fair Sales Contract:

Sellers must respect not only the health and safety of customers but their freedom in selection also. Our economy depends not only on the efficiency in producing but also the ability to protect the dignity of the buyers. If buyers are exploited then we have a form of slavery. Historically it was the existence of such economics slavery which gave rise to communism and socialism. But today we can expect the increasing intervention of political power and law to promote true economic equality between buyers and sellers.

The consumer society of the country are a part and parcel of trade and industry since without consumer welfare they have no healthy existence. The problem of fair sales contract between buyers and sellers is of vital social importance.

The sellers should recognize first of all the buyers as human beings and his expectation and sentiments should be respected. That is ethical necessity of fair sales contract respects the rights of both buyer and seller.

A fair sales contract should be a free agreement. There should be freedom to both parties which should be based on knowledge. Therefore fraud and ignorance can make a contract unfair and unethical.

Parties concerned should have not only freedom but also capacity for acting on it. In view of the nature of the fair sales contract the seller will be unethical whenever he deliberately uses fraud or power or creates ignorance in order to gain an advantage.

In a society the seller will be unethical whenever he deliberately uses fraud or power or creates ignorance in order to gain an advantage. In a society the seller is given the right to distribute any product and when the buyers right to choose the product is not provided, then there is no democracy. The problem is not only with deliberate exploitation, but also involvement in situation where the existing power structure, ignorance etc. cause the buyers to agree to an unfair contract of sale. Therefore in order to have ethics in sales contracts, both the parties namely buyer and seller should discharge their obligations positively.

FRAUD, LYING AND DECEPTION

Fraud :

It exists when there is a deliberate attempt to deceive some one about a material fact, that is, about a fact which has some importance for the buying decisions. Buying is a serious matter in which deliberate deception is made frequently.

Lying :

Lying exists whenever one speaks against his own mind in circumstances whether the other has a reasonable expectation of the truth whether the matter be serious or not.

Deception :

Deception can result from fraud, lying, ignorance of negligence.

Sound ethics condemns not only the intent to deceive others but also risking or permitting of deception without a proportionate reason. If I can prevent deception by expressing myself a little more clearly I ought to do so. Having done my best, I cannot be accused of negligence.

It should be noted that fraud and lying can exist even though they cannot be established in the present law. For example television advertisers. Some of the unethical advertisers and manufacturers advertise misleading data, exaggerated facts and figures, giving false data, with an objective of inducing the viewers to buy their products and services. It is a deliberate unethical activity, through which the viewers may be deceived in dealing with the proportionate reason. It is important to consider the nature of audience. Thus the honest advertiser need not bother himself when the deception results from the buyers carelessness in reading properly printed advertisement. But ethics and trend in law would dictate the use of reasonable care in protecting every one from deception while evaluating the deception which might be the result of a statement the advertiser should keep his audience in mind. For example while giving advertisements, it must be easily understandable by all. Terms and language which are known in the industry only should not be used in advertisements. But still in case of advertisements there are numerous sectors where the language is clear only to the seller.”

Sellers often object to agreeing to standardized terminology and grades which make it easier for the consumer to compare values. To a certain extent their objections are based on the fact that such a standardization may make it difficult to promote real innovations which were not foreseen.

In order not to be deceived one should be more cautious, and should exercise reasonable care.

Special Problems in Advertising :

Advertisement is an investment for a business and not an expense. The benefit of advertisement is long lasting. Even good products need some push in the modern market. However the advertisement should be properly photographed. It should not deceive others. For example, in the case of television advertisements, variety of techniques are used to assure a true picture of the product of the company. Hot wine is used in the place of steaming coffee. Blue shirts must sometimes be used instead of white. The actual object of such photograph is to give picture about the product. Advertisement with technical advancements are very successful nowadays. In order to give a final good impression about the product, sometimes, facts are exaggerated. At the same time, the techniques used by the advertiser should not denigrate the product of a competitor or no deception is involved any manner.

However, it is impossible to give a long list of specific problems and practices in advertisement. Two practices however need special mention since they are confused with legitimate selling tools. Therefore it is necessary to distinguish “Predicating” from “legitimate mark down” and “bait and switch” advertising from the “loss leader”.

Bait and Switch advertiser promotes a fictitious bargain which he does not intend to sell and generally does not have any reasonable quantity. With advertisement he tries to bring the customer to his premises, then he tries to switch to the high priced product which he actually intends to sell. If the customer insists on the promised product, then there can not be any bargain between the products. More often the buyer is told that the items has already been sold out. Such practices are generally used by distributors and dealers in customers durables and costly home appliances. This false advertisement by intention and effect has done much harm to the public.

The **loss leader** is product sold at a loss in the hope that the customers attracted by real bargain will buy enough of other products to yield a good profit. In the absence of loss to the contrary the loss leader is ethical so long as the seller has a reasonable stock with him. It is not a deceptive practice though it can be suspected that in the other products to make heavy profits, there may be extra-mark-up. In many states there are laws governing sales below cost and it should be studied carefully. Defects are often possible, since the law looks to the protection of the competitor consumer.

Preticketing or manufacturers 'placing' a retail price tag on his product is legitimate. However it is often of co-operation in deceptive pricing and advertising. Some manufacturers use inflated price so that the seller can convince the buyer that he is getting a real bargain when the price on the tag is dramatically marked down such procedure not only to the consumer but honest competitors also.

The legitimate markdown is reduction in price on either the normal or actual selling price. It is not deceptive because it is real.

Example a merchant buys some dresses at a particularly low price and wants to sell them as special. Such product is new in his market. So the consumers will come to understand about the markdown only when it is displayed. Now he places his product in the market at normal price and after some time he reduces the price of the product. His motive is not to deceive but to inform of the true value. Therefore such an advertisement is not unethical.

In addition to the above special problems in advertisement we shall see some of the general problems:

1. Some writers argue that increase in advertisement will increase the cost of the product and services which is a burden to the society.
2. Only big industrial houses can spare heavy amounts for their advertisement of product. As such the small competitors may be driven out from the market and thus leads to monopoly

3. Advertisement induces people to purchase what they do not want. However this problem due to advertisement cannot be justified. Only technically qualified, colourful and attractive advertisement is able to win the consumer's mind.
4. Some of the advertisements straight away affect the sentiments of the competitors.
5. Some of the advertisements fail to educate the consumers by giving literature and details of contents.
6. Some advertisements has sex and vulgarity and violence in the advertisement matter for their product.

In spite of the above problems connected with the advertisement the business community and the public are benefited by the advertisement and effectiveness.

Advertising is a tool that may be used or abused. We should not confuse the advertising with the advertiser. It only depends upon the standard that the advertiser maintains. If the advertisement is directed towards anti-social ends, advertising may be harmful and socially undesirable. The society will be benefited if it is used properly.

Packing and labelling :

A package has number of functions. It protects the product during transit, it provides data about the product, the content informations and in many cases packages are used as advertisement medium.

But unfortunately the packages may fail to perform any one of these functions and packages may be used by the manufacturers or sellers or dealers to deceive consumers. Most of the unethical problem arises when the packages fail to give adequate information to the users. In most cases the problem is closely connected with the manner and method of advertising itself.

The following are the unethical practices in packaging:

- a) Absence of regular prices on package.
- b) The use of odd ounces.
- c) Very limited information on pack.
- d) Difference in cost due to different sizes. Sometimes large economy size may be sold at higher price than regular size products.
- e) Stock fill-sediment deposited at the bottom during transit.
- f) Sometimes attractive handles may be given for the bottles without giving necessary literature about the product.
- g) Another unethical problem is that the seller may insist the buyer to buy in full lots and loose products may not be sold. In case of medicines some unethical seller may refuse to sell the medicines in small quantity.

h) Small letters and contrasting colours in packages may bring hardship to the consumers.

Most of these problems can be solved by asking the following questions :

1. Is the package intended to deceive or exploit?
2. If there is no intention to deceive, is there a proportionate reason for permitting or risking deception?

A small package naturally demands small letters. Providing a handle on the bottle may produce a shape which does not reflect the true size of the bottle.

There is no meaning in calling the package "a large economy size" when it actually costs more per ml or ounce than the regular size. It is also deceptive when a small plastic container with 25 ml (Fragrant Scant) is put in a big box twice as large as required.

Sometimes on packages a statement may be labelled for example Rs. 21- "off", although the new price may be higher than the old price. Of course consumer can detect this only when he possesses a photographic memory over the past prices.

The 50th national conference on weights and measures is working towards a model regulations for packaging. By making standards uniform they would help not only the consumer but also the packager.

The National Conference ruling provides guidelines for principle of display panel, table of type sizes, colour combinations. The packaging industry believes these provisions" are reasonable and workable in practice.

Existing legislation forbids abuses in packaging and more legislation is needed. A company should standardise its own packaging in a way to make maximum use of self-space, warehouses and easy transportation. The results will be increased profits along with lower prices to consumers. Co-operation among packagers and consumers improve the efficiency of our distribution sector. Mere self interest should move. American packagers almost have standardised packs. If Indian standard in packaging does not improve, they will face lot of difficulties in the global market.

Advantages of packing

1. Packing protects the products from heat and light and thus the quality is maintained.
2. Packing adds attraction to the product and induces the consumers to buy the product.
3. It is helpful in identifying and locating a product.
4. Products when packed, more quantity can be handled with less effort.
5. Wastages in loading capacity can be avoided when properly packed.

6. Good packing enhances the goodwill of the company.
7. Information on packages about the contents, weight, suggested retailer price, batch number, date of expiry, manufacturer's address, warnings if any, educates the consumer of the products. In case of drugs and medicines, the literature on packages is very useful to the users.
8. Well packed production can be moved to longer places without difficulties.
9. Colourful, attractive, well designed packages are used for advertising the products.

The ethics of buyers

The ethics of buyers to a large extent form the reverse side of the ethics of sellers. The buyer must not exploit by fraud or power. In order to safeguard his position, he is not expected to be ignorant. He should be in a position to make an evaluation of price and utility of the product.

Sellers must disclose substantial defects to the buyers. At the same time buyers should gather information and compare the products and he has an obligation to use his resources intelligently. Ignorant buyers and their carelessness in buying has made it possible for the dishonest seller to deceive and exploit the ignorance. If buyers are skilled, naturally honesty will be there in the market. Therefore the buyers are not expected to be ignorant, lazy and ill knowledged persons. In addition, in the name of bargain the buyers should not put unnecessarily irrelevant and tricky questions to the sellers. There are a few cases where the buyer being also the appraiser is expected to reveal the value of the product. For example, an individual with a diamond approaches the jeweller and is asked the worth of the diamond by the owner who wished to sell. Here, the buyer (jeweller) makes an offer well below the true value, and thereby he helps himself by an unfair, practice in the role of buyer.

In addition, in case of sale or return basis, the buyer is expected to return the products in good condition. The seller understands the role of consumer in society and behaves with self discipline.

Be true and honest if you expect others to be so.

Buy only when needed.

Totally shun black market.

Do not get muscled by high sales talks.

Be courteous to produces and sellers if you expect them to be so.

Protest openly and fearlessly when buyers have real cause and continue to protest until action is taken.

Lesson 5
ETHICS IN PRICING

What is price?

Price is the exchange value of a good or service in terms of money. In other words, price of a product is what the seller feels it worth in terms of money to the buyer. If there was no money, the exchange could still be undertaken and then the price would not be there. The advantage of using monetary standards is that the buyer can use a universally accepted medium of exchange for any other commodity or service as desired. This exchange value is called price.

Prices and the price level affect the welfare of sellers, buyers and competitors. As a result, the fairness of prices is a central issue in business ethics. At the same time, it is a difficult question for which there is at present no completely satisfactory answer in either theory or practice. At times, pricing practices give the appearance of competition but in reality protect sellers can lead to economic consideration and possible government control. Laws are designed to protect small dealers and subsidiaries inefficient. They often encourage pricing which reduces efficiency and robs the economy of even the limited benefits of competition.

It is impossible to evaluate the long range effects of prices as our economy is dynamic and complex. The existing theories of pricing are based on false assumptions. Hence it becomes essential on our part to point out various defects and suggest some measures to narrow down the drawbacks.

Difficulties with existing theories

Older theories of ethics of pricing suffer from the following two drawbacks.

- a) The older theories are inapplicable to many segments of the economy.
- b) They make no allowance for the cost of price instability. Under different kinds of markets, price are fixed on the following bases.

a) Perfect market

In case of perfect competition prices were set by the collective judgement of a fairly large number of buyers and sellers. So long as there was real freedom, it could be assumed that the resulting price was fair since it represented a community judgement of the exchange value of goods. Resources were allocated in accordance with the value judgements of the community since the price tend to equalise supply and demand. In this way both individual

justice and social good were served. The price so established was binding on both buyers and sellers unless some particular judgement justifies lowering or raising of the price.

b) Imperfect market

When the market is imperfect, the price fixation is inapplicable to large segments of our economy and large buyers and sellers are in a position to set the price unilaterally. Moreover, the buyers lack information necessary to form correct judgements. The present market does not equalize the power of buyers and sellers but tends to build up the power blocks which can call the tune.

c) Monopoly market

New product pricing is in essence of monopoly pricing. Since competition is absent, the seller has a free hand to fix a price. Such pricing will be on the principles of what the traffic will bear. Such a price will maximise the profit.

When the competition is true and perfect in the market, it brings consumers lower prices. When the market is imperfect, it tends to produce instability which makes it difficult to plan research and innovation. It is for this reason that many companies avoid price competition and seek to administer prices in the interest of stability and planned growth. Similarly the government should intervene frequently to fix prices.

In short the perfect market is good for the society and large groups of individuals. When the prices are stable, it will have the effect on individuals and institutions. When the prices are reduced it will benefit the poor and when they are increased, it becomes difficult for a large section of the people.

Pricing practices

In large segments of the economy, prices are not set by competition even though law encourages it indirectly. More often, prices do not result from a free intercourse between buyers and sellers but are set in a variety of ways and in view of a variety of goods. This is true not only of the prices of commodities and finished goods, but of labour. In case of new products, if there are no substitutes, the seller may have wide latitude since buyers may be willing to accept it. Moreover, many businesses can survive only if they charge future costs and future services in the price of products they are selling here and now.

Price fixing

Conspiratorial price fixing is condemned not only by the law but by ethics. The reason is that the conspiracy causes power to destroy equality between buyer and seller. Furthermore, it involves a type of fraud since the buyer is led to believe that he is dealing with

independent offers. When the price fixing results in actual losses to the buyer, we are dealing with a type of theft or unjustified discrimination. Finally, conspiratorial price fixing interferes with economic mechanism.

Conspiratorial price fixing tends to exist in industries with certain common characteristics over capacity, special buyer specification and buyer power. In such industries, real price competition can destroy less efficient operators, it can also lead to anti-trust prosecution of the survivor and to waste of resources which are sunk costs and cannot be applied to their uses.

Administered price

Usually the producers do not want price competition. Price competition disciplines the inefficient and limit management's freedom to plan for the future. As a result, the administered price is an ideal why firms would like to make a reality since it gives these more freedom. It is a price set by producers and sellers rather than by the forces of short run supply and demand. It is more stable than prices set by supply and demand so that planning is more feasible. It is not a monopoly price since both competitive forces and the fear of the government are always present to some extent. However many firms are well enough insulated against the full impact of a free market and so can control their prices. The result is that customers pay more for the product than they would in a free market.

Some firms which enjoy the privileged position use the extra margin of profit for research and expansion. It may be argued that the consumer pays less in the long run. In addition, part of the price may be considered as an investment by the consumer in the future of the economy. Administered price allows many companies to accumulate capital, power and the possibility of controlling larger and larger areas of economy because of their financial position. Sooner or later the existence of such power will call for more and more government regulation. This day can be postponed by public relations and lobbying, but in the long run, society cannot permit large private power centers which are not responsible in the best interests of society.

Resale price maintenance:

A manufacturer may fix a price for his product for the wholesalers and retailers and pass the goods. The fixation of such resale price by the manufacturer is called resale price maintenance. Generally such arrangement is arrived at by mutual arrangement in some cases through a formal contract and in others by common understanding.

The following are some of the arguments for resale price maintenance.

1. It protects the advertised and branded product of a manufacturer from being used as a loss leader. Loss leader the items which the dealer sells at very low price.
2. Continued and indiscriminate selling of high priced, high quality products at low prices affect the prestige of the product.
3. A manufacturer can assure a certain margin of profit to the dealer who agreed to display and sell his products.
4. With the policy of resale price maintenance, the manufacturer can advertise his product and its price.
5. It restrains competition and enables small dealers to co-exist with large scale organisations.

To following are some of the arguments against resale price maintenance:

1. It encourages inefficient units to survive longer.
2. It encourages low cost stores to promote lower priced products in competition with the price maintained brands.
3. The supervision by a manufacturer involves additional expense and trouble for them.
4. The consumer has to pay more for his purchases.

Price and advertising:

False advertising is blamed as it is unethical and the customers are being made to pay more. It is not only the fault on the part of advertiser but also on the part of buyers who identify the branded product with quality and price. In most case, advertised and branded products are of good quality, readily available and carefully controlled. However, price differences reflect more than the costs needed to provide these services.

It is difficult to differentiate between true value and actual price. It is also impossible to conceive a method by which the scrupulous advertiser can avoid creating some illusion so long as buyers are careless. As long as competition takes the form of advertising and non-price differentiation, it would be suicidal for many manufacturers to change their tactics.

Discriminatory pricing:

Discrimination is unethical only when based on factors which are not relevant to job qualifications. Discriminatory and unethical pricing injures not only buyers but also competitors. The price difference of a product may be due to a large variety of discounts, allowances, feed, services and premiums which affect the cost of to the buyer. Discounts given to employees may be actual reductions in price. Similarly, a trade discount is also a real reduction in price. Both law and ethics recognise the legitimacy of price differentials needed to meet

competition. Functional discounts paid to a buyers are also ethical and legal since they reflect a cost differential to the seller.

Unethical co-operation and competition:

Illegal / unethical co-operation exists when competitors combine together to exploit weaknesses of buyers. There are a number of causes of such unethical co-operation which has close relations with competitors.

The sellers will not always like true competitive process which will discipline him if he fails. In case of a buyer's market, it is true. If the seller has high fixed costs, real price competition can easily turn profits into losses. As a result, such sellers want to insulate themselves from price competition and uncertainty. When this is done by deceiving buyers, we have unethical conduct

The means of insulating oneself from competition may be unethical in many cases. In some cases, the businessman is trying to avoid some evils which can harm not only the company but also the public.

Competition which leads to monopoly may rob the public of even the limited benefits of oligopoly. Thus real monopoly will demand government control of prices and stop the benefits of such non price competition as innovation, quality control and better service. However, it is certain that sellers do not have a right to make a unilateral decision and then enforce it by unethical means. Some are interested in price and they should be able to negotiate a free purchases not affected by fraud or coercion.

Competition which leads to drastic price changes does not benefit company, industry and most buyers. This decision as to whether the value of stability outweighs, The value of competition should not be unilateral and unethically enforced. Sound values demand both buyer and seller participate in negotiating free contracts of sale and purchase.

The myth of competition :

The true nature of our economic system are mysteries to a large part of our population including a large part of the business community itself. In the world of competition, many small businesses exist in which no one seller can really influence prices. When there are a number of businesses, it will lead to competition which assures that justice is done.

Usually, the small business does not set the tone of the economy. Big business does that and it has had the power to escape much of the discipline of the market. As a result, it has been able to set prices and allocate capital in such a way that was not envisaged by classic economic theory. These groups have an interest in maintaining the myth of competition since

this helps to quiet the nerves of the common people. They have even coined such misleading terms as people's capitalism in order to turn attention from the real centres of power in the economy. This fact of tremendous power is concealed by another set of slogans.

One must be aware of the influence of economic concentration on the political and public sphere. In America, the president's Business Advisory Council is largely dominated by big business. The council has given advice that has often been more profitable to its members than to the general public. President Kennedy discovered that it was not easy to discipline big steel and he back tracked when they made things too hot for him. This political influence is not merely the result of political contributions and memberships on government committees.

Big business and its trade associations are aided by small business in protecting the public mind from contamination by reality. There are committees which scan school books to make sure that they do not deviate too much from the picture wants to present. There are foundations which run programs for clergymen in the hope of teaching them a simple and favourable picture of the economy. There are new letters available to educators which further inculcate a simplified and comforting picture of the system.

Profits and social costs:

When growth and progress have stemmed from a mixed system, it follows that profit may be meaningless except use in the evaluation of social performance of a firm. When much of the productivity is due to the results of education, profit may represent the surplus created by society rather than by the business system. When various direct and indirect expenses are borne by individuals or buyers, it is not shown in the balance sheet of any corporation.

Social costs are represented not only by the scars of stripmining and the burning coal pile while threatens to undermine a town but by the effects of the working wife on home and the education of children. When a person is working as a travelling agent, he cannot fulfil his duty as father and it may also represent a social cost. A buyer is not in a position of knowing the actual cost of a product.

Lesson 6

SOCIAL RESPONSIBILITIES OF BUSINESS

Business is an homological part of the Social system; and it influences other elements of society which in turn affect business. Traditionally, the term business commonly refers to commercial activities aimed at making a profit or to organisations formed to make a profit. The modern concept of business is viewed as a system of the total social system-According to Davis and Blomshorin "Our modern view of society is an ecological one. Ecology is concerned with the mutual relations of human population or systems with their environment. It is necessary to take this broad view because the influence and involvement of business are extensive. Business can not isolate itself from the rest of society. Today the whole society is a business's environment.

Business in general refers to the totality of a enterprises in a country engaged in manufacturing industry, trade, finance, banking, warehousing and insurance irrespective of the form and manner of ownership and Management. In modern societies business occupies a dominating place attesting the life of citizens in different ways more than only other institution or activity.

The traditional way of looking at business was to produce and to make profit, at any cost and by any means maximisation profit was the only guiding factor. Even as late as 1963. Milto Friedman wrote that there was one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits. It was felt that it was not necessary for the business man to be concerned with the social value issue of business since the market place performs this function automatically. The customers make the value of choice for himself by selecting one item rather than another. The success of a business in itself is prima facie evidence of the social value of that business over its less successful competitor.

In modern times the objective of business has to be proper utilisation of resources for the benefit of others. A profit is still a necessary part of the total picture, but it is not the primary purpose. This implies that the claims of various interests will have to be balanced, not on the narrow ground of what is best for the shareholders alone but from the point of view of what is best for the community at large. The business concerns should accept its obligation to be socially responsible and to work for the larger benefit of the community. The shareholders, the suppliers of resources, the consumers, the employees, the local community and society at large are affected by the way an enterprise functions. Hence a business enterprise has to be socially very responsive so that a social balance may be struck between the opposing interests of these groups.

Evolution of the concept of Social responsibility of Business

The evolution of the concept of social responsibility of business has passed through different stages of struggle. Business began merely as an institution for the purpose of making money. So long as a man made money and kept out of Jail, he was considered successful. He left no particular obligation and acknowledged no responsibility to the public. As an owner of his business, he thought that he has a perfect right to do with it what he pleased. Social norms and attitudes had very little influence on the practice of management. Even in U.S.A. the business ventures like those of John D. Rockfall, G.F. Swift, J.P. Morgan and others resulted in a flagrant disregard of society, the individual worker and competitive business firms.

But by 1920's the position changed and the word 'Service' had become the slogan of innumerable business clubs and associations. At the same time business leaders as a whole were becoming increasingly conscious of the fact that the public was an integral part of the general business scheme. Sense of service thus qualified and modified the greed for profit. Economic order came to recognise social order as its very foundation. It is now increasingly recognised that what is not for public good is not for the good of business.

The second element that helped the process of the evolution of social responsibility of business was the purchasing power of the public. The demand of the public meant nothing unless backed by purchasing power. Industry had come to understand that one of its proper function was to manufacture and distribute merchandise. The most important effect of this changed attitude was new business policy which demanded a persistent tendency towards higher wages and lower prices. Thus the new social responsibilities of business came to be recognised.

Still another consideration in this process has been the rise of new relationship between the public and business. The era of purely private business for private profits is gone. Business has a duty to report to the public whose money is constantly asked for, in order to conduct the business itself.

Nature and Scope of the Businessman's Social Responsibility

The businessman today is not only an "economic man" but is at the same time a "Social man". The business organisation is not only an economic system, it is a social system as well, and the products and consequences of business are inevitably social in a far broader sense than economic.

When business is understood as social system, it becomes clear that the firm's internal social environment may be as substantial of social consequence of the business organisation as its economic output. The businessman should begin with the fundamental reality that the firm necessarily produces two products.

1. The economic goods and services of the firm and
2. The social effects on the people involved in the production, distribution and consumption of those goods and services inside the firm as well as in the community in which the firm operates.

Social Responsibilities towards Different Groups

Social responsibilities of a business may be grouped under two broad categories :

1. Internal and
2. External

Internal Social responsibilities include responsibilities towards owners (shareholders) and employees.

External social responsibilities are towards consumers government and the community.

Responsibilities towards owners

Owners of business fall into three main classes. First, there are owners who are proprietors, owning business, its property and management. Secondly, there are owners who can be called shareholders of companies and corporations. Thirdly, there are partners in firm conducting the business. There are specific law regulating their rights and obligations, both under the general law such as the Contract Act, Transfer of Property Act, Sale of Goods act, etc., as well as under specific law like the companies Act and the partnership Act.

What is the responsibility of business towards such owners, shareholders and partner?

Responsibility of fair return

Primarily, the responsibility is to see that the owner of shareholders or partner gets fair dividend or a fair return on the capital which he invests. This is his expectation from business and a reward for his capital and for carrying on the business. Now what can the owners legitimately expect? These expectations have to be responsible, Greed, profiteering, black marketing, cornering and unfair trade practices are against the social responsibilities of business, and such illegal expectations have to be legally, economically, commercially and socially prevented and prohibited.

The reasonable and lawful expectations of the owners of business should be rationally analysed and assessed. The very first expectation is both political and economic security of the investment which the owner or shareholder or partner makes. If conditions are created which do not ensure such security, then the inevitable consequence is flight of capital, with-

drawal of capital and search for alternative investments other than business. This may lead to cessation of business and industrial activities, decline in national output and national dividend, and widespread recession. In that atmosphere the whole climate of confidence which is the basis of business and which is the basis of social responsibilities is destroyed.

The Second expectation is that this return must be a reasonable return. The public and consumers have this social responsibility to the owners and they cannot expect that in a free market they will have free benefits. To pay a fair price for service is a part of the social responsibility of business. It is a principle equally good for workers, management and owners.

Meaning of Fair Return

Risks in particular business at a particular place and at a particular time are important elements assessing the return expected by the owner. Differences, sometimes very great, in different economic region add to the difficulty of standardising or determining an uniform rate of return. In the present economic climate, it varies anywhere from 20 or to even 30 percent.

However, it is felt that the rate of return on investment should be definitely higher than the rate of interest on bank deposits. It is suggested in certain quarters that it should be 6% above the prevailing bank rate as minimum, with the maximum not exceeding 16% of the capital invested.

Besides, shareholders expect a share in the capital appreciation. Bonus shares are issued out of accumulated profits by which the benefits of profits, capital appreciation are made available to owners.

Responsibilities

1. Responsibilities turn
2. Capital appreciation

Responsibilities Towards Employers (Workers)

Social responsibilities of business demand that a new orientation of the employer-employee relationship has to yield place to a new concept of partnership between labour and capital and a new model of business for this new age.

The major problems in this area of relationship are :

1. The question of wages.
2. The question of salaries.
3. Actual relationship between the employers and the employees.
4. The whole problem of industrial legislation.

5. The question of welfare.

Wages

Social responsibilities of business suggest that wages should be need based. They should be such that a wage earner can provide for himself and his family (Consisting of a reasonable number of members, such as wife, two children and one or two dependants) the minimum necessities of life such as food, clothes, a moderately rented one room flat, reasonable medical care, education, and basic minimum insurance against old age, invalidity and unemployment. There is also the view that wages should be a little over what the needs justify so that employees may have some minimum surplus for other comforts with which they can give shape and expression to life and their own ideas.

This particular social responsibilities of business with regard to wages naturally depends on (i) the ability of the company to-pay and (ii) on the productivity of the workers.

Salaries

One aspect of social responsibilities of business is the relationship between employer and employee. It is the question of salaries for management and higher staff and their perquisites. It is widely believed that remuneration at supervisory and managerial levels should be linked with responsibility, risk-taking, initiative and skill. However, these considerations are difficult to value. Certain pragmatic suggestions have been made. For instance, a ratio of 1 : 20 should be fixed between the minimum wages and highest salaries (Inclusive of perquisites). Another pragmatic suggestion is that of a ceiling on income which should not be allowed to exceed a particular amount. How much that amount will be necessarily depend on the volume of capital, production, labour, staff, and the size of business, obviously, these factors vary in different enterprises. Thus, there can be no justification for one standard ceiling for all. However, in India Government has imposed a ceiling on managerial remuneration with guidelines issued in this regard. The Central Government by its decision of 26th October 1978, fixed the minimum remuneration payable to an individual managerial personal of public limited company by way of salary and 7 or commission at Rs. 72,000/- per annum. On 10th August 1982, have provided for a ceiling of Rs. 90,000 on salary, Rs. 45,000 per annum on perquisites, and Rs. 10,000 per annum as commission on net profits.

Within the legal limits, the company should fix salaries so that there is not much disparity between wages and salaries in industries because that creates a good ideal of social tension and imbalance.

Relationship between Employers and Employees

The major obstacles standing in the way of good relationship employers and employees can be divided under two broad categories.

1. Lapses on the part of employers.
2. Lapses on the part of employees include

1. Lapses on the part of employees include

1. Unsympathetic and unseemly treatment by supervisors,
2. Favouritism by employers appointment, promotion and other matters.
3. Lack of leave with or without pay.
4. Lack of communication between the management and workers as a normal routine course of behaviours inside the organisation.
5. General absence of any norms, and lack of appreciation of meritorious achievements and non comminution of largely and neglected, and
6. Delay in settling disputes.

2. Lapses on the part of Employees include

- a. Indiscipline and negligence in carrying out the orders of superiors.
- b. Lack of real desire to improve efficiency.
- c. Politically inspired trade unions controlled by outsiders do not belong to the industry or labour, furnishing the whole image of the employer-employee relationship.
- d. Strikes, gherao etc.,
- e. The vested interest of trade union leaders to try to refer as many disputes as possible to the tribunals to show their importance.

Industrial Legislation

Industrial legislation is a tool to bring harmony in employer employee relationship, by providing for minimum wages, payment of wages in time, settlement of disputes through tribunals, payment of a settled amount as compensation, provision of welfare facilities and so on. However, it is felt in certain quarters that industrial legislation in India is more limitation of registrations in England and other Western countries, and is not appropriate for Indian Conditions.

Welfare of Employees

Another aspect of social responsibility with reference to employer employee relationship is the welfare of employees. The employee ought to be provided health and satisfactory working conditions including comfortable environment, medical facilities.

Responsibilities towards Employees**Problems in the area of employer-Employee Relationship**

1. In relation to wages - Social responsibilities suggest that wages should be need based.
2. In relation to salaries for management and higher staff. - it should be linked with responsibility, risk-taking initiative and skill.
3. In relation to actual relationship between employers and employees.

A. Lapses on the part of Employers

- i) Unsympathetic treatment by Supervisors.
- ii) favouritism by employers.
- iii) lack of provision for leave with or without pay.
- iv) lack of communication between the management and workers.
- v) general absence of any norms.
- vi) delay in settling dispute.

B. Lapses on the part of Employees.

- i) indiscipline and negligence.
- ii) lack of real desire to improve efficiency.
- iii) politically inspired trade unions controlled by outsiders.
- iv) strikes, gharaos etc.,
- v) the psychology of the trade unions to refer increased number of disputes to tribunals.

4. Industrial Legislation

Some believe that the industrial legislations in England and other Western countries are not appropriate for Indian conditions.

5. Welfare Employee

The employees ought to be provided healthy and satisfactory working conditions.

Adequate periods of rest, canteen facilities, drinking water facilities, washing facilities, facilities for leave, creche for children of women workers and so on. Some of these facilities have been made obligatory to be provided under the Factories Act. However, these facilities have economic ramifications also. Satisfied workers are bound to work more efficiently.

Responsibilities towards consumers and the community

The consumer and the community are the ultimate judges of business and its products, these is a widespread feeling, sometimes reasonable and sometimes unreasonable, that busi-

ness have failed to carry out their responsibilities towards the consumers in particular and the community at large.

The responsibilities of business towards the consumers and the community are:

- a. the goods must meet the needs of the consumers of different classes, tastes and purchasing power.
- b. the goods must be reasonably priced, of dependable quality and of sufficient variety.
- c. the sale should be followed by service to ensure advice, guidance and maintenance.
- d. a fairly wide spread distribution of goods and services among all sections of consumers and the community.
- e. the prevention of concentration of goods in the hands of a limited number of producers or purchasers of goods.

The general feeling is that the business community has not discharged these responsibilities satisfactorily. The areas of failure in this respect are i) Price level, ii) quality and standard, iii) service, iv) production, and v) distribution and marketing.

Price Level

The general impression is that business is by and large responsible for the rising prices because of high cost of labour management, raw materials, transport and marketing, but the fact remains that hoarding and cornering play an important role. It is a vicious circle. Rise in prices encourages hoarding and cornering. Again hoarding and cornering lead to rise in prices.

It is a part of the social responsibilities of business to ensure that goods are available at fair reasonable and relatively stable prices at the time when the consumer needs them, and to take proper steps in advance to minimise the fluctuation in prices due to scarcity in production and seasonal imbalance between supply and demand.

Quality and Standard

Quality of goods is a part of the social responsibilities of business. Does business in India give adequate attention to quality and standards. What impact has been made in this respect by the I.S.I, standards or quality certification by Government agencies like "Agmark".

It is widely felt that the standard and quality of Indian goods are generally poor. The reasons are as follows:

- a) the methods of production and manufacture are not standardised.
- b) the uncertain quality of both skilled and unskilled labour.
- c) inefficiency of supervision and control, and
- d) managerial isolation lacking in response to demand for quality and standards, besides monopolistic and group controls.

Compulsory quality control is, therefore a necessity, "Agmark" and "I.S.I" marks were introduced as quality control measures and how far have been able to meet this desired end.

Regarding "Agmark" there is a general feeling among the public that in some cases the inspection done by Agmark authorities is nominal and unsatisfactory and that, therefore, their certificates are not always dependable. There is widespread feeling that there was certain amount of corruption both among the inspectorate of the Agmark authorities as well as among producers and manufacturers.

The Indian standards Institution, it is believed, has succeeded generally in ensuring proper quality and standards and has so far established such standards. However, not many commodities are covered and, therefore, it has played only limited role.

The following measures have been suggested to improve the quality and standards.

- a) Every manufacturers should have a quality control section, either at the unit level or group or association level.
- b) Different trade associations should prepare suitable and detailed specifications of the products or goods manufactured/ marketed by their members.
- c) Every article manufactured should pass the quality tests as different stages of manufacturing before it finally, goes out of the factory. Where the unit level quality control section is not available suitable sampling methods should be adopted and such samples should be tested at the group or the association level.
- d) Marketing associations in charge of general administration of organized market places, including Government municipal and corporation markets, should set up Vigilance Committees to exercise strict vigilance over traders operating in such markets, to ensure fair practice in regard to quality, prices and other terms of the trade.
- e) Businessmen themselves should form, voluntary associations of permanent nature to exercise effective checks on their members by setting up disciplinary committees, as in other professions, with powers to boycott or black-list members found guilty of malpractices in the matter of quality of goods supplied and thereby dissuade the general public from dealing with such business. In this respect "The Fair Trade practices Association" of Bombay has made a satisfactory start. It may be hoped that such associations would be formed in the near future in all the principal cities and commercial towns in India and
- f) There should also be consumer's Associations to report failing to standards and they should have a right to complain to the Fair Trade Practices Associations, who could then in appropriate cases investigate. Such consumers Associations as the "Better Business Bureau" more commonly known as "B.B.B." in the U.S.A. have been very effective in foreign countries.

Distribution

Distribution must also be considered as part of the social responsibilities of business. Here again there is growing dissatisfaction. The shortcomings of the retail trade are many. Retail traders charge whatever prices they can get and there is no uniformity. The quality of goods in the hands of retail traders is also undependable. It has been found that even medicines, after they have crossed the expiry date/are sold to consumers.

Consumer councils which have proved to be very useful both in the United Kingdom and the U.S.A. can be expected to bring awareness amongst Indian manufacturers, wholesalers and retailers to observe certain basic norms of trade.

Responsibilities towards Consumers and Community

1. Goods to meet the needs of consumers of different classes, tastes, and purchasing power.
2. Goods to be reasonably priced, to be of dependable quality and of sufficient variety.
3. After-sale service.
4. Widespread distribution of goods and services among all sections of consumers and the community.
5. Prevention of concentration of goods in the hands of a limited number of producers or purchases or groups.

Responsibilities towards Government

A businessmen has the following social responsibilities towards the Government.

1. To be a law-abiding citizen.
2. To pay his dues fully and honestly.
3. Not to purchase political support by unfair means.
4. To strive fairly and honestly to stimulate economic growth by making reasonable sacrifice, if the national interest so requires.
5. Not to corrupt public servants.
6. To sell his goods and services without adulteration at fair*and reasonable prices.
7. To maintain fair trade practices and refrain from activities like restraint of trade, hoarding cornering and other such unfair practices.

However, to meet the above social responsibilities business also expect certain considerations from the State. Broadly stated business expectations from the State are for :

1. Clean, prompt and efficient administration.
2. Intelligent, practical laws, easily understood and easily applied.
3. Reasonable stability in legislative, administrative and fiscal policies:

4. Preservation of law and order ensuring safety of life, property and continuity of business.
5. Rational tax structure.
6. Even treatment of various groups and sections in the society.

Lesson 7

SOCIAL RESPONSIBILITIES OF BUSINESS IN INDIA

The Indian business sector presents a mixed picture as far as social responsibility is concerned. The questions of social responsibilities of business has been gaining the attention of the business community for quite sometime now. This became the subject matter of conference and seminars held at Delhi, Calcutta and Bombay in early 60's. An international seminar on the social responsibilities of business was held at the India international Centre, New Delhi from 15th to 21st march 1965. The Declaration issued at the conclusion, of the seminar defined social responsibilities of business as "responsibilities to customers, workers, Shareholders and the Community".

The Calcutta Seminar on the social Responsibilities of Business was held on 25th March 1966. It discussed the main features of social responsibilities of modern business and expressed the need for a special expert study of this problem to find the norms, standards and nature of such responsibilities. The Calcutta seminar formed a standing committee, which setup a special study group consisting of economists, statisticians, sociologists, businessman, directors, partners, members of the chambers of commerce, representatives of the professions of law, accountancy and the Institute of Business Management, Calcutta, Statesman, legislators and academicians. The terms of reference for the study group were.

1. to prepare a set of business norms for adoption by the business community.
2. to examine the hurdles in the way of the implementation of these business norms and
3. to recommend remedial measures to eliminate those hurdles.

The study group suggested the following as the social responsibilities of business for adoption by the business community in India.

1. Business must accept responsibility to the society and its various constituents as a trustee for the goods and services that it produces, consumes, saves and re-invests.
2. The social responsibilities of business extend beyond the business to the lives of the people and the community and as such they should be endeavouring to (a) play their proper role in civil affairs within the zones of the business, (b) promote amenities and help create better living conditions (c) help in making people law abiding and improving affairs and (d) set up socially desirable standards of living themselves, avoiding exorbitant, wasteful and improvident expenditure in weddings, festivities and parties.

3. Business owes to itself as a primary obligation to give a fair and square deal to its customers and consumers. They should be charged a fair and reasonable price which should be well within their reach. The supply of goods should be of uniform, standard, and reasonably of good quality. The distribution of goods must be so widespread as to be within the reach of the consumer. No business should directly or indirectly indulge in profiteering hoarding or on eating artificial scarcity.
4. Business should not mislead the consumer and community by false, misleading and exaggerated advertisements. Obscene advertisements are demoralizing and a danger of public morals.
5. Business should develop its administration in such a way as to promote a spirit of co-operative endeavour between employers and employees. There should be sense of participation between the capital on the hand and labour and skill on the other in their objective towards, prosperity and progress.
6. Business should endeavour to pay.
 - a) fair and reasonable wages to its labour.
 - b) fair and reasonable remuneration and salaries to its staff.
 - c) fair and reasonable return to themselves for their work and capital without creating unseemly disparities and by providing fair and reasonable progress and promotion within the business administration from one level to another.
7. Business should develop and adopt a progressive labour policy based on:
 - a) recognition of genuine trade union rights, settlement of disputes and conciliation.
 - b) participation of the workers in improving production and administration.
 - c) creating sense of their belonging to the business and
 - d) improving the human qualities of labour by education, training, living conditions, housing leisure and amenities.
- 8) The social responsibilities of business include a healthy co-operative inter-business relationship between different business and avoidance of such unfair practices as price rigging undercutting, patronage, unfair canvassing and unethical advertisements.
9. The social responsibilities of business towards the State demand that.
 - i) the businessman will be a law-abiding citizen.
 - ii) he will pay his dues and taxes to the state fully honestly.
 - iii) he will not corrupt public servants and the democratic processes for his selfish ends.
 - iv) he will not buy political support by money or patronage,
 - v) he will sell his commodities and services without adulteration.
 - vi) he will maintain a fair trade policy and avoid activities leading to restraint of trade.

The Sachar committee (1978) which also went into the question of social responsibilities of companies observed as follows :

- 1) In the development of corporate ethics, 9 stage has been reached where the question of social responsibility of business to the community can no longer be scoffed at. The Plea of the companies that they are performing social purpose in the development of the country can only be judged by the test of social responsiveness shown by them to the needs of the community.
- 2) Acceptance of the concept of social responsibility must be reflected in the information and disclose that the company makes available for the benefit of various constituents like the shareholders creditors workers and the community. Openness in corporate affairs is the first principle in securing responsible behaviour.
- 3) The sachar committee appreciated that some of the enlightened business houses in India were showing a recognition of the social responsibility owed by the corporate sector. These business houses did contribute to solve problems like on employment. Rural development, environmental protection including conservation of resources control of pollution and provision for clean drinking water.
- 4) Accountability of the public sector to the public through parliament must find its parallel in the private sector in the form of social accountability which, in the committee's view. Is a mere extension of the principle of public disclosure to which a corporation must be subject. Every company, apart from being able to justify itself on the best of economic viability, will have to pass the test of a socially responsible entity.
- 5) In order to ensure implementation of the concept of social responsibility and dissemination of adequate information in this regard, a provision should be made in the Act that every company, along with director's report, shall also give a social Report which will indicate and quantify in as precise and clear terms as possible the various activities relating to the social responsibility aspects which have been carried out by the company in the previous year.

It is gratifying to note that a number of leading companies in India have shown recognition of the social responsibility of the corporate sector, the business community has been instrumental in setting up hundreds of institutions of public service like schools, colleges, management institutes, dispensaries, hospitals, technological institutes, research institutes (medical scientific and technological) libraries dharamshales, cultural institutions, institutes for the dumb deaf and blind, museums and places of religious worship. Some of the leading enterprises have extended welfare measures like health and medical facilities to people of the surrounding villages. Many businessmen have risen upto the occasion to help the victims of droughts, floods, earthquakes and other natural calamities.

One of the important externalities of industrialization is the serious ecological damage it has inflicted. The problem of environmental pollution caused by industries is very serious in a number of places in our country. Though some enterprises have taken pollution abatement measures, many both in the private and public sectors continue to be major offenders against the environment. In fact, some of the public sector enterprises are notorious for their irresponsibility in this matter.

As J.R.D. Tata rightly points out, high standards of behaviour and the discharge of social obligations expected of or demanded from, not only business and industry but from all economic groups in the country whose actions have an impact on the public wallet. This applies in particular to trade unions in which, both in India and abroad have in recent years, acquired and often misused enormous economic powers, exceeded only by the Government's concerns. The millions of man-days of production lost in India every year owing to labour unrest and the violence from which such unrest has taken in many cases, clearly indicate the need for a new approach to trade unionism and a recognition of its social obligations.

The participation of labour in management has been suggested as a remedy for a many cause of industrial unrest.

While it is a welcome suggestion, it should be ensured that the "Collaboration" between labour and capital does not become instrumental in exploiting society. As long as labour gets its slice of the cake, it would support capital to a mass profit by exploiting society.

The social responsibility of business is usually advocated for the private sector, presumably on the assumption that the public sector is socially quite responsible. But the fact remains that the public sector in India has yet to prove that it is more responsive to society than the private sector. In some cases, in fact, the record of the public sector is more dismal than that of the private. As far as the pollution of the environment is concerned, the public sector is as quality as the private.

Many public sector enterprises in India have undoubtedly failed to discharge their primary responsibilities - increase in the productivity and production, efficiency in the provisions of the services etc. This is reflected in the mounting losses of many public enterprises. Some many argue that the public sector is not, and should not be, profit motivated. But gone are the days of such philosophy. It has been clearly laid down that the public sector should generate surpluses to finance our future development programmes. The huge losses incurred by the Indian public sector are not the result of any charity. They are the inevitable outcome of inefficiency, irresponsibility and miss management at various level. The failure of the public sector in discharging its primary duties had made the plight of the Common man worse than it

was, for it resulted in shortages. The public distribution system designed to give the common man relief from the clutches of the "Unscrupulous Private Sector" has failed. The least said about the efficiency of the service of the public sector is transport the better. In our country, a social audit is needed perhaps, more for the public sector than the private sector.

Lesson 8

SOCIAL AUDIT

(Social Audit - Concept - objective - scope - need - feature - approaches)

This lesson brings out an analysis of social audit and its objectives.

Introduction

The vital areas of social responsibilities of business concerns are concerned with economic growth, the control of inflation, social mobility, achievement of economic equality, conservation of resources maintenance of ecological balance, effective use of human resources etc. The organisation should be arranged in such a way as to achieve 'economic and social revolution'. The executive of organisation should prepare themselves to achieve this "total revolution". Their failure to understand this crucial responsibility will bring an economic disaster.

Economic growth and inflation are interrelated. Maximising production and shrewd financial management only can have a control over inflation. It necessitates not only clever management of business concerns but also management of interaction of companies with the society. Management discussion must be taken as social issues by relating all the other activities of the economy which is functioning under constantly changing environment.

With the increasing awareness of social responsibilities, the management of companies is forced to appraise the performance of companies as to the fulfilment of social responsibilities. When the objectives of a business concern are determined in the light of its responsibilities towards the societieives, it becomes the duty of the management to evaluate the fulfilment of this responsibility at intervals. Business concerns can no longer be satisfied with their profitability alone forgetting their commitment to society. By neglecting the social responsibilities, a company invites the problem of being alienated by the society in the long run.

It is therefore necessary for companies to undertake periodic evaluation of its social performance. With the increase in the involvement of companies in economic and social improvement of the nation, social audit is gaining more and more significance.

Evolution of the concept of social audit

Social auditing is a new tool of management. It is required for the disclosure of the

social performance of the company. It is of recent origin. It is a major innovation of 1970s in the entire field of management.

However Craps, who is regarded as the founding father of this concept, has written a monograph on the measurement of social performance. In this work, he summarized his findings in 72 industries covering a period of 20 years (1919-20). But his measurement did not cover the entire aspects of social performance.

Another attempt was made to appraise the social performance by Howard. R. Bowen in 1953. An independent appraisal on certain performance at five year period by a group of auditors. This too was an insufficient attempt.

But it gained more significance after 1970s. The modern social audit movement first started in U.S.A. later it spread to U.K. Japan and other countries. Social auditing is not an easy task. It offers a challenge to those traditional financial auditors and managers. More than 50 per cent of 500 large companies in USA and UK have adopted this for their internal control. In European countries many multinational concerns have adopted social auditing.

In Japan also it is gaining popularity. More than 25 per cent of Japanese companies have adopted it. Many large companies have agreed that good profits and social responsibility are inseparable. Without social auditing the management may not be able to face the challenge of the future.

Hargreaves has advocated a 'frame work for the selection of the social auditing approach' which is appropriate to a company. But this is not found useful by many companies; In USA one leading company publishes statements of their social performance.

Definition

There is considerable disagreement among different authors as to what social audit means. To some it is the public disclosure of company's social performance. Some take it for internal evaluation of company's social responsibility performance. Many authors feel that it is the comprehensive evolution of the way a company discharges its responsibilities to its shareholders, customers, employees and to the society it belongs to.

Melvin Andshen, a professor of Columbia University defines social audit as "an idea whose time has come but which is not ready to be taken off the drawing board and put to work"

Though this definition is vague in explaining what social audit means, it clearly points out the significance of its presence and the reluctance of companies to adopt it.

Bowen defines social audit such as "Commitment to systematic assessment of and reporting on some meaningful, definable domain of companies activities to have a social impact".

Blake, Frederick and Mayors defined social-auditing in their book thus. "Social Audit is defined here as a systematic attempt to identify, analyse, measure (if possible) to evaluate and monitor the effect of an organisation's operating on society (i.e. specific social groups) and on the public well-being".

This definition has attempted to give a wholesome explanation of the term social auditing and has succeeded in it to a greater extent. The purpose of social audit is not concerned with finding the social impact of the company's performance. But it also helps to evaluate the impact and if necessary to guide them in the proper line by cleverly monitoring the performance.

Social audit is conducted to assess the company's contribution to the society i.e. the social well being of the country. It is a qualitative one. It aims to quantify the social benefits contributed by the company. But it is very difficult task and suitable system for conducting social audit.

Objectives and scope

The objectives of social audit is very broad. The social audit aims at measuring the social benefits contributed by the company. The objectives are as follows.

1. The extension, development and improvement of the company's business.
2. Achieving financial stability.
3. Payment of a fair and regular dividend to the share holders.
4. Payment of fair wages under the best possible conditions to the worker.
5. Supply of goods and services at a reasonably low prices to consumers.
6. Improvement of worker's conditions with bonus, fringe benefits, worker's participation in management etc.
7. Promoting the welfare facilities of the locality.
8. Promoting the general conditions of the industry which the company belongs to.
9. Promoting education, research and development in the techniques of the industry.

Social audit covers wider areas of social interest. They are as follows.

1. Improvement of quality of products :

It becomes necessary on the part of the concern to improve the quality of goods and services, especially taking into consideration the scarcity of many resources and increasing awareness of consumers.

2. Fair trade practices :

Trade practices must be fair to all parties concerned. Unfair practices will bring a sever blow to the concerns in the long run.

3. Material and Energy conservation :

This assumes greater significance in the light of scarcity of productive materials and energy.

4. Labour welfares schemes :

The business concern are expected to provide labour welfare schemes including health and safety, education and training, recreational and other facilities to the workers. Behavioural scientists are of the opinion that these schemes though expensive In the beginning would produce profit in the long run.

5. Business Policies :

It covers the business policies regarding price fixation, wages and bonus payable to employees and profits and returns to owners, It studies whether the business policies are able to achieve the social benefit.

6. Worker's participation in the management:

It studies whether the employer-employee relationship is maintained at the desired level. Worker's participation is of recent origin and it attracts highest level of involvement of the workers in the welfare of the concern.

7. Pollution Control:

Social audit has the responsibility of checking the level of environment pollution created by the various activities of production or trading concern.

The real asset of the company is the human resources. Skilled people with advanced knowledge can do better service to the improvement of the concern. But still more important are the supplies and consumers. Without them the business cannot survive. Hence social audit should studies the service of the concern to supplies and consumers.

Change is inevitable in modern management. Management of changes requires special skill, Social audit studies how these changes are accommodated in the concern.

Need for social Audit

Modern business concerns are vastly different from their counterparts in olden days. Though they are organised for achieving profitability, they are not concerned with profit alone. In addition to it they feel that they have a moral responsibility towards the society.

Most of the modern concerns are big in size of operation and are more powerful and command huge resources. This power should not be used irresponsibly by these concerns. The resources in the hands of these powerful concerns should be used for the benefits of the society as a whole. Indifferent utilisation of these scarce resources would be considered anti-social and be condemned by the society.

Financial audit gives a clear picture of the profit and loss position and financial posi-

tion of the companies. But the Company may like to know the extent of its performance towards fulfilling its social responsibilities. Social audit provides such information with quantitative and qualitative analysis.

Governments are providing a lot of opportunities and facilities for the development of industries and commerce. They are all utilised by manufacturing and business concerns. It is but nature that the State would like to know that these facilities are not used for destructive and anti-social activities. Social audit supplies relevant information in this respect. Thus social audit has become a matter of necessity.

Features of Social Audit

Social audit is different from other audits. It is quantifying the social impact of its various performances. This process has attributed some specific features to social audit.

1. Measurability of Results :

Corporate undertaking undertakes special activities to perform its social responsibilities. The results of such performance are to be felt by the society. Material benefits to society could be measured in terms of money. But many activities are giving moral satisfaction to consumers and its is difficult to measure this in terms of money precisely.

2. Performance of company towards social responsibility is occurring outside the organisation mostly. This further complicates the work of quantifying the merits of such performance.

3. Even when the data regarding the performance of company towards social responsibility are collected, it is very difficult to decide the cause and effect relationship between different factors. Because in social activities the results are caused by many factors and the exact reason and extent of its influence can not be decided. Moreover it cannot be proved in many cases.

4. Information required for social audit

Precise information about the concerns in accurate monetary terms as well as qualities aspects of such information are utilised for social audit. The qualitative data is used to supplement quantitative data.

5. Social Auditor

Any responsible offer can perform social audit. No professional standards and qualifications are prescribed for a auditor. Internal auditor or external auditor of a company or any other outside agency can do social audit. Social audit is not a legal compulsion. But it is gradually acquiring more and more significance. Hence it should be performed by experienced responsible and impartial officer.

Contribution of Social audit

Major contribution of social audit is the disclosure of information to public. Business

concerns with huge operation and resource utilisation are having a strong influence on the public, industry and on the economy of the nation. Also they use the resources of nation to larger extent for their development, Hence their disclosure of information about the performance of companies has become a matter of necessity.

Social auditing may be classified into :

1. Organisation structure (how decentralized it is and how far the system has been adopted by it)
2. Personal audit (how far modern personal policies and practices have been adopted)
3. marketing audit (how far the marketing concept has been adopted)
4. Communication audit (how far communication technique for internal and external use have been adopted)
5. Shareholders audit (how far the interest of various groups of employees, consumer, shareholders, suppliers etc. have been served)
6. Issue audit (how well pollution, raw material crisis, worker participation multi-nationalism have been tackled)

As it looks social audit include a wide range of activities of management which have direct influence over the relationship between the company and the society. The society consists of shareholders, customers public employee etc. It is difficult to have a quantitative measurement of social performance. But it is possible to evaluate the contribution of company to the economic and social welfare of the many groups of the society.

Information to be disclosed :

Apart from the disclosure of information by the financial audit social audit has to disclose some information on companies performance. They are

1. Information connected with community involvement. These activities have direct bearing on the society. Eg. food supply programme and community planning and improvement, health services, voluntary activities among employees etc.
2. Information regarding the improvement of human resources. Eg. Job enrichment, working conditions and training, employment practices etc.
3. Information connected with physical resources and environment contribution reveals the knowledge of the company about the legal provisions to preserve the ecological factors, conservation of scare resources, disposal of waste etc. It also helps to study the activities undertaken by the company in this respect.
4. Information on the manner in which the service or products are supplied to the consumers.

The information provided by the disclosure of social audit helps to provide sufficient details to many are really having involvement in the affairs of the company. They are:

1. Financial Institutions which provide the fund flow to the company.
2. Share holders-who are interested to know the rate of return on their investment.
3. Academic Institutions and business consultants.
4. Government
5. Environmentalists.

Thus there are many who take real interest in the disclosure of information by the social audit. They take interest in such an information for different purpose.

Approaches to Social Audit

There are different approaches to conduct social audit. Each approaches is trying together as much information as possible with the purpose of disclosing the right picture of the social performance of the companies.

1. The Inventory Approach:

This approach aims at complete stock taking of all the social activities of the corporation.

2. The Cost outlay Approach:

This approach focuses its attention on the cost side of the social performances. It studies the amount spent on each activity individually.

3. The Programme Management Approach:

This approach concentrates on the management side of the performance. It is not at-ested with the knowledge of activities performed and the amount spent. It studies whether the project is managed property and the objectives are really achieved.

4. The Cost benefit Approach:

It tries to establish a relation between cost and benefits of the social performances of the corporations. It aims at studying the real worth the performances.

Of all these approaches, the cost-benefit approach is considered the most informative approach.

Social Cost-Benefits Analysis (SCBA)

Social cost-benefit analysis is undertaken as a systematic and quantitative analysis to check whether desired social benefits of a project is worthy of its estimated social benefits of a project in worthy of its estimated social costs.

Procedure of Social cost benefit analysis

1. Determination of problem :

The first step is the identification and determination of problem. The problems are

identified on the efforts taken towards the achievement of the broad objectives of the Corporation.

2. Ascertaining alternative solutions to the problem :

The problem can be tackled with different types of solutions. Different solutions availed to solve the same problem are identified.

3. Estimation of social costs and benefits :

Quantifying the cost involved in different alternative steps and expressing in terms of monetary value is the next step. Social benefits of each alternative solution is also estimated.

4. Appraisal of estimated social cost and benefits :

Comparison of social costs and benefits of the different alternative solution helps to find out the optimal solution.

5. Evaluation of the solution after performance :

Evaluation of the solution implemented after the performance helps to find out the drawback in the solution and the way of performance.

Objectives of Social Cost Benefits Analysis :

The objectives of SCBA is as follows:

1. to determine and measure the expected future economic and social benefits that may be derived from an intended project.
2. to estimate the flow of economic and social costs involved in the accomplishment of the benefits.
3. to determine the net benefits to be derived out of the performance.
4. to weigh the benefits of different alternative proposals.
5. to ascertain as to which of the proposals would yield the maximum benefits in relation to set economic standard and social goals for the nation economy.

Difficult in Social cost Benefit Analysis :

1. Difficulties in measuring social benefits

Benefits of social activities are in different form monetary, mental satisfaction, saving prestige etc. If is very difficult to quantify in term of money, the benefits of social programmes.

It gets more complicated where interaction between various social programmes is involved. Also in many times wrong objectives may be considered for benefits as they are easier to be quantified.

1. There may be more than one benefit as a result of a social programme. Many ancillary benefits may not be recognised. It may led to failure in quantifying full benefits of a social programme.

2. Normal scales cannot measure the social benefits especially when the benefits is of quality in nature and us differing from one beneficiary to another.
3. It is also difficult to estimate the social costs involved in the social programme.
4. It is difficult to include the social into the total cost system.

Benefits of Social Audit

Social audit gives benefits to the company management government shareholders and public. It provides informations required by various groups. Benefits of social audit are as follows.

1. It helps the management to check whether the company's social objectives are really achieved.
2. It helps to check whether the expenditures made on social programmes are really worthy or not.
3. The appraisals are made by an outsider and hence it provides an unbiased view of the activities of the company employees.
4. The social audit is not compulsory and the report is submitted only to the company. Hence the report shall make a frank opinion on the company activities without fearing leaking out company's secrets and weaknesses.
5. It encourages the concern to take greater interest in the welfare of the society and it in turn boosts up the image of the concern in the minds of the public.
6. It helps to compare the effectiveness of different welfare programmes.
7. Performance of social obligations attracts better involvement of employees shareholders, suppliers etc. It also leads to higher degree of efficiency and productivity.

Conclusion :

Business concern are only parts of the society. They cannot develop under the deteriorating conditions of the society. Higher profitability alone can not ensure the prolonged existence of the concerns. Financial audit and cost audit are not revealing performance rate of the concerns social responsibility. Social audit is fulfilling this responsibility and hence becomes a necessity.

Qualification of results is not possible in the case of social audit as in the case of financial audit. But it helps to reduce the gap between the society and corporations. Throughout the world concentration of power in the hands of a few big corporations has brought about a confrontation between government and corporations. Government on one side take interest on the welfare of masses and throws a suspension eye on the selfish development of corporations. Social audit is creating congenial atmosphere by self evaluation of social responsibilities for a smooth and unstrained relationship between corporations and society.

Suggested Questions

1. Define 'Social Audit and explain its scope and objectives.
2. Bring out a sketch on the features of social audit.
3. Who are the beneficiaries of disclosure of information made by social audit?
4. What are the different approaches towards the conduct of social audit?
5. Explain the significance of 'Social Cost Benefit Analysis'.
6. What are the difficulties in social cost benefit analysis?
7. How does 'social audit' help corporate management?

Lesson 9

SOCIAL AUDIT IN INDIA**Introduction**

We had an elaborate analysis on social audit in the previous lesson. In tried to study the various aspects of social audit in general not pertaining to any particular nation. In this lesson we are focusing our attention on the efforts for the introduction and development of social audit in India.

Climate for social audit in India

Social audits is in its infant stage in India. This lack of development is not due to lack of necessity but due to late introduction and lack of proper understanding.

Being the largest democratic country, it remains highly committed to the welfare of the people. Private sector, Public sector and joint sector are existing simultaneously ensuring maximum service to people. Public sector undertakings were organised either afresh or by nationalisation to concentrate on provision of maximum service at minimum cost and price unmindful of profitability of the concerns. Joint sector undertaking have been organised to enjoy the efficient management of private sector and spotless service mentality of public sector.

Severe competition from these two made the. private sector concerns to worry about their contribution to society in addition to their profit seeking objectives. They have realised that profitability of the concern alone can not be fixed as the objective of the concern. They have their social responsibility to be performed.

Social responsibility of Business in India

The importance of social responsibility has been regonised by Indian corporation only

recently. Large population huge demand scarce resources, slow growth rate of population protection policy of government and consumers ignorance made it convenient to companies not to think of their social responsibility. Only after sixties they began to think of their duty to the society. An international Seminar on the Social responsibilities of business was held at New Delhi in the year 1965. The conference defined social responsibilities of business as "Responsibilities to the customers, workers, shareholders and the community".

The seminar held at Calcutta in 1966 discussed the main features of the social responsibilities of the modern business and expressed the need for a special expert study of the problem to find out the norms, standard and nature of such responsibilities. The seminar formed a standing committee to prepare a set of business norms for doing by the business community.

In addition to various recommendations the standing committee stressed that business must accept its responsibility to the society and it should act as a trustee for its won production. It also stated that the social responsibilities should extend beyond the business to the lives of the people and to the community.

Sachar Committee

The government of India appointed a high powered expert committee on companies and MRTP Act in the year 1978. The committee was headed by Mr. Sachar and hence the committee was known as Sachar Committee.

The Committee examined the question of social responsibility and expressed that "we have reached at a age where the question of social responsibility of business to the community can no longer be taken lightly".

The committee is of the opinion that the concept of social responsibility must be reflected in the information and disclosure that the company makes available for the benefit of the shareholders creditors workers and the community in general.

Public Enterprises and Social auditing

Assuming that private enterprises would be tempted to concentrate on their profit only, Indian government turned its attention to establish public enterprises. The public enterprises were expected to discharge their social responsibilities. But instead of becoming "agents of social change" and instruments of social economic change they have become a heavy drag on the Indian economy because of their continuing heavy losses, wastage of resources, lack of internal capital formation and of human resource development.

When it was found that private enterprises failed to meet their social responsibilities, it was assumed that public enterprises would discharge their social responsibilities to the satisfaction of the entire community. What India needs is economic performance and results,

a high level of employment, better paid jobs, job satisfaction and a better quality of life, Public enterprises have failed to provide these requirements.

Public Enterprises and Social responsibility

Dr. Manmohan Singh in his speech at Madras has stated that it is essential to conduct Social auditing for public enterprises so that we may know in what respect or areas their performance has to be improved. In addition to political consideration their fear that if social auditing is conducted their shortcomings would be exposed and that will be affecting of Public enterprises has fed to their reluctance to accept social auditing.

Private enterprises and social responsibility

Private enterprises are having a better prospects now due to the new economics policy and 'liberalization' movement of the government. But it leads to increased competition. The government has greater responsibility for the maintenance of economic improvement. So it has to exercise more control over private enterprises. If the private enterprises do not know to improve the quality of life and human dignity they will have to bow out of the industrial scene, the survival and success of private enterprises depend upon its contribution for the development of the society through the performance of the social responsibility.

Therefore every business organisation be it big or small, public or private must be aware of its social responsibility. Because of this significance it is better to have a periodical check on the social performance. It helps to convince themselves of the performance in the right direction and to provide information as to this effect to the public.

Social audit and social accounting

Both the terms are used sometimes to convey the same ideas. But they have different meaning from the operational point of view. Social Accounting is "the process of selecting firm level performance variables measures and measurement or procedures; systematically developing information useful evaluating the firm's social performance to concerned social groups both within and outside the firm". Social audit on the other hand, refers to the evaluation or assessment of a company's performance against planned goals in the areas of social responsibility. The assessment may be carried out by internal or external bodies for internal or external use.

Social audit and TISCO

In India many concerns realised the importance of social responsibility after seeing its growing significance in western countries. Tata iron and steel company was the first concern to carry out a social audit. It appointed a committee to this effect in October 1979. The terms of reference of the social audit committee were stated as follows. "To examine and report whether and the extent to which the company has fulfilled the objectives its social and moral

responsibilities to the consumers, employees, shareholders society and to the local community”.

It should be noted that the evaluation was not desired to be made against any specific plan or programme of the company. The committee took the work on the understanding that “Companies such as TISCO have the obligations to its workers and shareholders and to the community in which the company operate and to the larger society that these obligations arise from companies own understanding is based on values and norms that have been traditionally nurtured in India”

The committee submitted its report in 1980. The report presented its finding under different heads. (E.g.) City (its common facilities, housing, health and conservancy, water supply and medical services); the work and Mines : pollution : Employer - Employee : relations ; Consumers - shareholders ; community development and social welfare programmes ; Rural Development Programmes ; obligations to Society (small pox Eradication food relief etc.)

The committee reported the following inadequacies to be looked after by the company.

- a) At time of allocation of funds towards the various items of social welfare the allocating authority should call for greater details of each head of demand and determine the estimated benefits therefrom. This should be stated in the budget so as to be useful when the next yearly accounting and budgeting comes round. Merely stating heads of grants is not enough.
- b) When the next annual budget is prepared the previous year's performance in comparison to the expectations and details of expenditure should be closely scrutinized in order to enable the allocating authority to determine (i) whether the aid has reached the persons for whom it was meant and (ii) whether the allocations among different items require any change).
- c) A large appropriation towards education of children particularly girls and advises is of vital importance. Since a programme of rural uplift has now been undertaken such education should be carried to the village folk within the areas set apart by the company for its effort.
- d) In allocating funds for social welfare, care should be taken to (i) foster self-reliance in the community and (ii) give priority to the more critical felt needs of the community through a process of consultation.

- e) The problem of pollution from the chimneys has assumed serious proportions and requires to be controlled early and if possible eliminated. Since the cost of pollution control is likely to be very heavy even for a company like TISCO the effort may be spread over a number of years. In the meanwhile units or locations where the ill-effects of pollution are concentrated call for immediate alleviation.
- f) The dividends paid during the past few year appear to be some what meagre and since the company is constrained by executive instructions to limit them the company should make the necessary application to government to be allowed to increase it.

Apart form the above inadequancies the committee reported that the social performance of the company has been of high order and on its magnitude is perhaps unequalled in India.

The report would give a better idea of the scope of social audit. But social audit is not popular among concerns in India. Very few companies have undertaken a study to measure the effectiveness of their social performances. Very few of them are preparing a statement to analyse the social cost benefit position. In fact though many companies have accepted in principle their social responsibilities, very few of them are really spending their money on them.

Special significance of social audit In India

Social audit gains special significance in the present context of liberal policy of India Till very recently Indian Government followed a policy of nationalization as strong supporter of public sector undertaking could really care for the welfare of the society. Huge investments were made on public sector and these concerns were expanded even after knowing that they were running in chronic losses. The government tolerated the huge losses on the firm belief that they were providing public utilities and services which private sector undertaking would not favour for fear of loss.

But recently new economic policy and liberation attitude of government favour free enterprises and privatisation of many public utilities. Privatisation does not stand for shedding down social responsibilities. India is a big country with a vast population. There is ever growing demand for goods and services. In most cases the supply of goods and services could not meet the growing demand. This position which is highly favourable to suppliers and producers may lead to indifferent attitude towards social responsibilities.

Most of the consumers being illiterate and living in villages, they may not know their rights as consumers and hence are unaware of the social responsibilities of the companies.

The country has limited resources and with its limited resources it like to get a faster economic development. This process of development is often paralysed by productive and unwanted utilisation of resources. Hence it becomes necessary to avoid wasting them.

All these factors are in favour of social audit. If the business and industrial concern choose a wrong path and develop, it may be difficult and expensive to correct the maladjustment in the economy. It is better to check the path of development from the beginning itself. Social audit helps to observe the deviation of business and industrial development and correct it at early stages. Hence it assumes greater significance in present Indian context.

Legal sanction of social Audit

Legal status is sanctioned to social audit in India recently and certain categories of companies are made subject to social audit. The companies Act was also amended to accommodate social audit for companies. According to the latest provision of the companies. Act in certain specific categories of companies the auditor should examine certain specifies matter in addition to regular audit and make a statement to this effect.

The status of social audit after these provisions in the companies Act is as follows

1. Only certain specified companies are made subject to the social audit. The class of categories of companies shall be specified by the government to be subjected to social audit.
2. The social audit is more concerned with the expenditure side only. The statement specified shall verify whether allotted amount for social purposes are spent or not. From the statement both the shareholders and the public cannot understand whether the expenditure has given the due benefit to the intended society or not.
3. This is only a moral check and nobody will be punished for wrong. But a negative statement may make the company unpopular, reputed concern would like to avoid such negative statement in the report.

The social audit is mostly conducted by the auditor who is doing financial audit of the concern.

Council for social Audit

As the popularity of social audit grew up the government of India realised the significance of it, it set up a council for Social Audit on 7th July 1988. The council is

headed by Justice P.N. Bhagavathi, former Chief Justice of India. The council consists of 15 members. Mr. Anil Aggarwas, Mr. Manibhai Desai, Mr. Indrajit Deve, Mr. Indira Jaisingh, Mr. Nirmal Pandey are among the members of the council.

The council is given the responsibilities to facilitate mechanism to increase people participation. Conduct qualitative assessment of performances, current appraisal, suggest improvement for delivery of welfare provisions, provide high level public awareness on technology missions on drinking water, immunisation, adult literacy and telecommunications etc. The council is expected to conduct evaluations on requests made by responsible institutions and offices of Government voluntary agencies and social groups. It is also empowered to carry out independent check on its own. It can also conduct public awareness camps and conduct research on public awareness. However it is too early to appraise the functioning of the council and evaluate in impact.

Conclusion

Social audit is in its infant stage in India. It cannot be made obligatory because provisions are not sufficiently available for conducting social audit. Also the public is not fully ready to absorb the benefit of such audit. High expenses are involved in it. Only very big and powerful concern like TISCO, Cement corporations can undertake projects to regulate the nations rail roads and there by American's gave a goodbye to the age old policy of laissez faire. Smaller and developing concerns cannot hold it because it would lead to rise in cost and hence price of output. An increase in cost and price of product due to unproductive purposes could not be tolerated at the present period especially when most of the Indian private enterprises are threatened by the invasion of multi-national concerns due to liberations policy. But social audit is having a brighter and more important role to play in the years to come.

Suggested Questions

1. What do you mean by social audit Explain its scope in India.
2. Trace out the steps taken towards the introduction of social audit in India.
3. Explain insignificance of social audit for a developing economy.
4. What is social audit? Assess the future of social audit in India.
5. Discuss the significance of social audit for private sector and public sector enterprises in India

Lesson 10**TRADE UNION**

Union is an association of persons to decide on wages, working conditions, future benefits job security etc. It is a process by which an understanding is made between employer and employee regarding the terms and conditions of employment and other related aspects. This gives an opportunity to both parties to discuss the matter, its pros and cons arrive upon mutual agreement. The basic concept is that the labour and management should settle their own problems with or without the intervention of government.

V.V. Giri had said "A welfare state has to treat every worker as a human being with dignity and individuality and not as a mere cog in the big complex for industrial production".

Increased productivity is the objective of economics, whether capitalist or socialist. Under both the systems production and profit should be increased only with the increase in the standard of living of the workers in the economy. Efficient production and maintaining the position of the worker are equally important.

Unions are described as a firm which controls the supply of labour, fixing the price of labour. It is an association which has social and political dimensions. It is concerned not only with wages, but also decides the working conditions, agreement between management and workers, responsibility of management, distribution of power in the economy. In specific, occasions, it can be a major political force.

The union is recognised and protected in law. Even though it is a private association, it is so related to the public interest and the society in general. Therefore, there is an increasing demand for public accountability.

However, unions still enjoy great freedom and privilege. The law assumes that the union equalizes the power of labour and management and greater fairness is expected from collective bargaining.

The union, however, is not always the weaker part. Some small business man feels threatened by the big unions. Unions have the power to make agreements which affect the welfare of the consumers as well as weaker economic groups of the society.

It is true that many companies and unions have achieved natural relationships by mutual

respect and broad understanding of the issues involved. But this is not universally true. Still there is antagonism by the managements to the workers and suspicion in the minds of the workers about the management.

History and growth of Trade Union

The real beginning of trade unions was after I world war. It is due to the presence of unrest among workers. The first trade union was started in Madras. It was started as a "Strike Committee"

First union was started by B.P. Wadia in the year 1918 in a textile mill in Madras. In 1919, four unions were started with a strength of 20,000 members.

Mr. N.N. Joshi introduced the trade union bill and it was passed in 1926:

Trade union Act 1926

It is an important land mark in the Indian History. Trade union registration was made optional. Trade unions were given legal status.

It was amended in 1960 to give effect the recommendations of the conferences in 1958 and July 1959.

Minimum subscription for membership was fixed. It also gave power Register to inspect the books and accounts of trade unions.

Indian National Trade Union Congress

It was formed in 1947. It followed Gandhian Principles. This federation strongly felt that the problems and disputes could be solved by negotiations.

Hindu mazdur sebah I

It was formed in December 1948. It is an organisation of praja Socialist Party

The United Trade Union congress

It was formed in 1949 in Calcutta. This organisation stressed the establishment of wage commission.

Attitudes towards the union

The basic thing is the employer must recognise the fact that the unions have a right to attain the lawful objectives. Unions are basically necessary. They help the management and the workers in working out bilateral agreements in those areas where unilateral agreements

are unjust. They also provide a counter valling power which can minimise some abuses.

But unfortunately in India, the history of unionism has seen the rise of abusive practices and even evolution between management and labour against the interest of other parties in the economy. To a certain extent, these abusive practice should be minimised by sound attitudes, factual investigations and fulfillment of obligation. The union, the recognised bargaining agent who is created by law, should operate in the interest of all workers in the factory whether they are members or not. Therefore, the basic equity should be there.

Bargaining and processing of grievances should be according to law, and the expenses of processing should not be high.

While entering-into bilateral agreements, the union should consider the interest of the other parties namely consumers, public etc.

The unions require an employee to become a union member within thirty days of employment.

When the factory is closed for one reason or other, it is the duty of the union to look into the matter to safeguard the interests of the employees.

The serious natured mistakes of a labour should not be excused by the union. Such things should not be justified.

Different people have different views and attitudes about trade unions.

1. Workers think it as a strike committee.
2. Some of the managements think that unions are unnecessary.
3. Government takes unions as intermediary agency to have easy dealings in settlement of disputes.
4. Generally workers think the union as a bargaining machine
5. Every body feels trade union gives job security.
6. Sometimes dishonest workers get the advantage of union backing.

Creative Ethics :

A certain amount of tension between management and union is good, there is an obligation to see that such tension does not harm the company or the economy. To maintain ethics, we

need creative thinking and not the senseless shouting of staging against the management or government. As Peter Drucker has noted there must be rational wages along with balance of power between management and employees. Irrational and immoral behaviour of both parties will disturb the ethical climate of the company.

To create ethics both management and union should come out of their old frame of reference. The manager should realise that a fixed amount of wages and-fringe benefits gradually introduced. Similarly, the management should ensure social security, unemployment compensation, stability in work, seniority rights and guaranteed annual wages to the workers.

The management should think that wages or fixed cost of production. But unfortunately such a view may lead to automation of industries.

The management should also conduct research and development to start new ventures which may improve business, remuneration to the employees, ethical conduct of human affairs.

The collective bargaining of the workers by the trade union may not safeguard the interest of the third parties namely consumers and the government. Therefore to protect the outside rights, outside representation should-be created.

DEFECTS TO TRADE UNION OF INDIA

1. Weak trade Union movement

In recent years trade union membership has increased considerably. Today there are about 20000 registered trade unions. But looking at the size of the membership the trade union movement is neither strong nor stable.

2. Domination of outsiders in Trade Unions

At present there are outsiders other than workers in the trade unions. The outsiders opinions are enforced on the labour force. The outsider may be a leader with political inclination exploiting the strength of the workers for his party gains. The outsiders who have no stake in the industry direct activities of the unions for their own survival by raising violent activities.

3. Multiplicity of Trade Unions

One of the important factors that leads to industry unrest has been the multiplicity of trade unions and rivalries between unions. Indirectly government has also contributed to multiplicity by their labour policy. The government under the Trade Unions Act has given the right to register any union irrespective of the membership.

4. Behaviour of Trade Union

Some weak unions behave in an erratic manner. This creates problem of industrial relations in a company. Their erratic behaviour gives an opportunity for outside leadership and interference of political parties, violence in the company, premises etc.

In some parts of the country unethical trade unions are functioning on communal and linguistic basis. They create prejudice among communal forces.

5. Lack of leadership.
6. Lack of full time officers to look after the trade union work.
7. Trade union in India has got a negative approach to the issues.
