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The Social Environment

Ethics and Social Responsibilities

Ethics are moral principles and judgements that many people believe should be considered when a business makes any decision (**for example**, what is 'right' and 'wrong'? What is 'good' and 'bad'?). Social Responsibilities are the duties that a business has towards the people who are affected by its activities, for example, customers, employees, suppliers, and the local community.

A 'good' business is deemed to be one which acts in a **socially responsible** fashion, and takes ethical decisions and actions at all times. It minimises waste, it creates wealth, it treats its employees well, it respects the environment, it does not employ 'fat cat' executives, it is efficient in its use of resources, it meets consumers' expectations and it returns some of its profit to the community in which the sales are generated.

Topical ethical issues in today's business world include:

1. The exploitation of cheap labour in foreign 'sweatshops'.

2. The use of child labour.

3. Dealing with corrupt foreign governments and businesses.

4. Causing damage to the environment.

There are many advantages that businesses can gain from taking a highly ethical and socially responsible stance:

1. Attracting and retaining high quality employees.

2. Attracting new consumers.

3. Generating good publicity.

4. Attracting ethically-minded investors.

However, taking a highly ethical and socially responsible stance can lead to a variety of short-term problems, including increasing costs, reducing profits, and conflict between the management and the shareholders.

Pressure Groups

Pressure groups are organisations that develop in order to tackle a matter of vital interest to the members of the group (e.g. campaigning against businesses which cause pollution, or test their products on animals).

They do not have any direct political power, but they often aim to influence the actions of local government and central government, as well as the actions of businesses.

Pressure groups can generally be classified as:

1. Interest groups: These groups are established to further the interests of its members and to make the general public aware of its cause (e.g. trade unions).

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2. Cause groups: These groups are established to further a particular cause (e.g. animal welfare) as to make the general public aware of this cause.

The basic difference between the two groups is that interest groups are motivated by self-interest, whereas cause groups are more concerned with other people and the environment.

Pressure groups try to exert influence in a number of ways, including arranging boycotts of products, creating adverse publicity for the business, holding public demonstrations, and 'lobbying' the government (i.e. attempting to get the cause noticed and acted upon by MPs).

Basically, pressure groups aim to raise as much publicity and awareness of their cause as possible, in the hope that this will stop the businesses from continuing their actions.

The success of a pressure group in achieving its aim(s) will depend on a number of factors, the most important of which are:

1. Their available funds and resources.

2. Their organisational ability.

3. The level of public sympathy.

4. Their access to politicians and people in powerful positions in industry.

5. Their reputation.

Social Audits

A **social audit** is an independent and critical review and appraisal of the business in aspects such as its level of environmental damage, its use of recycled materials, and the health and safety of the workforce.

Traditional business audits purely measure financial ratios and performance, but social audits take into account both **external costs** (the detrimental consequences of the activities of a business that are paid for by society as a whole, such as pollution and congestion) and **social costs** (which measure the total cost to society of the activities of a business).

In other words, social costs are equal to the internal costs of the business plus the external costs faced by society.

An increasing number of businesses are carrying out social audits due to rising environmental awareness amongst consumers and investors. Concerns are being raised about the negative aspects of business activity such as waste by-products, air pollution, water pollution, congestion, noise and damage caused to the environment.

As a result of these concerns, businesses are engaging in a number of environmental schemes which aim to promote the business in a socially-responsible fashion, including recycling schemes, sponsorship of local communities, and developing long-term trade-links with suppliers and communities in third-world countries (i.e. ensuring that these suppliers and communities receive a fair price for their services).

By becoming more environmentally aware and considerate of their effects on society, it is hoped that businesses will reduce the number of social costs that they impose on communities and on the environment, and instead they will be able to produce a range of social benefits (such as sponsorship of schools and local events, job creation, and the provision of a range of services that can be used by the local community).