

CUET · BUSINESS STUDIES · CLASS XI · CODE 305

Social Responsibilities of Business and Business Ethics

CUET unit: Social Responsibility and Business Ethics

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Snapshot

- Establishes that a business enterprise is permitted by society to operate and therefore has obligations beyond mere profit-making and legal compliance.
- Defines social responsibility as the obligation of business to take decisions and perform actions desirable in terms of the objectives and values of society — broader than legal responsibility and involving voluntary action.
- Presents the eight arguments for and four arguments against social responsibility, plus the seven reality factors (public regulation, labour, consumer consciousness, social standards, business education, social-business interest link, professional managers).
- Classifies responsibility into four kinds (economic, legal, ethical, discretionary) and maps responsibilities towards owners, workers, consumers and government/community.
- Develops business and environmental protection (causes — air/water/land/ noise; need for and role of business in pollution control) and business ethics with its five elements.
- Anchors the CSR threshold of the Companies Act 2013 (Clause 135): turnover Rs. 1,000 crore+, net worth Rs. 500 crore+, or net profit Rs. 5 crore+; spend 2% of average net profit of the previous three years.

Detailed Notes

2.1 Core concepts

A business enterprise is **permitted by society** to carry on industrial or commercial activities and earn profits, but is obligated not to do anything undesirable from society's point of view (NCERT §6.1, p. 134). Durable success comes from socially responsible and ethically upright behaviour.

The **concept of social responsibility** (NCERT §6.2, pp. 134-135) is the obligation of business to take decisions and perform actions which are desirable in terms of the objectives and values of our society. It implies respecting society's aspirations along with profit interests. Social responsibility is **broader than legal responsibility** — legal responsibility is fulfilled by mere compliance with law, while social responsibility involves voluntary action by businesspeople for the benefit of society, going beyond what law

requires. This is the master distinction, and NTA pulls assertion-reason items on it almost every year.

The **Companies Act, 2013 (Clause 135)** CSR thresholds (NCERT box, pp. 135-136): CSR provisions apply to companies with **annual turnover of Rs. 1,000 crore or more, OR net worth of Rs. 500 crore or more, OR net profit of Rs. 5 crore or more**. Such companies must set up a **CSR Committee** with at least one independent director and spend **2% of the average net profit of the previous three years** on CSR activities. CSR is defined by the European Commission and World Business Council for Sustainable Development as the voluntary integration of social and environmental concerns into business operations and stakeholder interactions.

Arguments for social responsibility (eight) (NCERT §6.3.1, pp. 136-137): (i) justification for existence and growth; (ii) long-term interest of the firm; (iii) avoidance of government regulation; (iv) maintenance of society; (v) availability of resources with business; (vi) converting problems into opportunities; (vii) better environment for doing business; (viii) holding business responsible for social problems. **Arguments against (four)** (§6.3.2, pp. 137-138): (i) violation of profit maximisation objective; (ii) burden on consumers (cost shifted via higher prices); (iii) lack of social skills with businessmen; (iv) lack of broad public support. The **seven reality forces** (§6.3.3, pp. 138-139) pushing business towards social responsibility are: (i) threat of public regulation; (ii) pressure of the labour movement; (iii) impact of consumer consciousness (with **caveat emptor** replaced by "customer is king"); (iv) development of social standards for business; (v) development of business education; (vi) relationship between social interest and business interest (complementary, not contradictory); and (vii) development of the professional managerial class.

NCERT §6.4 (p. 140) classifies responsibility into **four kinds**: (a) **Economic** — produce goods/services society wants and sell at profit (little discretion; the primary responsibility); (b) **Legal** — operate within the laws of the land; (c) **Ethical** — behaviour expected by society but not codified in law (e.g., respecting religious sentiments in advertising), with an element of voluntary action; and (d) **Discretionary** — purely voluntary obligations such as charitable contributions to educational institutions or relief during floods and earthquakes. The order moves from least discretionary (economic) to most voluntary (discretionary). NCERT §6.5 (pp. 140-141) maps the **responsibilities of business towards different interest groups**: (i) **Shareholders/owners** — fair return on capital, safety of investment, regular accurate full information; (ii) **Workers** — meaningful work, right working conditions, respect for democratic right to form unions, fair wage and fair deal; (iii) **Consumers** — right quality and quantity of goods at reasonable prices, no adulteration/misleading advertising, right of information; (iv) **Government and community** — respect laws, pay taxes honestly, protect natural environment, develop proper image.

NCERT §6.6 (pp. 141-145) develops **business and environmental protection**. The environment is the totality of man's surroundings — natural and man-made; pollution is the injection of harmful substances into the environment, and is largely the result of

industrial production. The **four causes/kinds of pollution** (§6.6.1) are: (i) **Air pollution** — chiefly carbon monoxide from automobiles and smoke/chemicals from manufacturing plants; created a hole in the ozone layer leading to global warming; (ii) **Water pollution** — chemical and waste dumping into rivers, streams, lakes; (iii) **Land pollution** — dumping of toxic wastes, making land unfit for agriculture; (iv) **Noise pollution** — from factories and vehicles, can cause loss of hearing, heart malfunction, mental disorder. The **five reasons for pollution control** (§6.6.2) are reduction of health hazards, reduced risk of liability, cost savings, improved public image, and other social benefits (clearer visibility, cleaner buildings, better quality of life, purer natural products). The **role of business in environmental protection** (§6.6.3) involves seven steps: (i) definite commitment by top management; (ii) sharing commitment across all divisions and employees; (iii) clear policies for purchasing good materials, superior technology, scientific disposal and employee skill development; (iv) complying with laws; (v) participation in government programmes; (vi) periodical cost-benefit assessment of pollution-control programmes; and (vii) educational workshops with suppliers, dealers and customers.

NCERT §6.7 (pp. 145-147) defines **business ethics** as "socially determined moral principles which should govern business activities". The word ethics derives from the Greek "ethics" meaning character. Ethical behaviour goes beyond law and government regulations — it is just and fair conduct expected by society. The **five elements of business ethics** (§6.7.2, p. 147) are: (i) **Top management commitment** — CEO and higher managers must give continuous leadership; (ii) **Publication of a 'Code'** — written code covering honesty, product safety, workplace safety, conflicts of interest, employment practices, fairness in selling and marketing, financial reporting; (iii) **Establishment of compliance mechanisms** — ethics in recruitment, hiring, training, auditing performance, and communication systems to report unethical behaviour; (iv) **Involving employees at all levels** — small groups of employees discuss ethics policies; (v) **Measuring results** — audit to monitor compliance and discuss results for further action.

2.2 Definitions to memorise

Term	Definition	Page
Social responsibility of business	Obligation of business to take decisions and perform actions desirable in terms of the objectives and values of society.	134
Legal responsibility	Responsibility fulfilled by mere compliance with the law of the land.	134-135
Corporate sustainability	Role companies play in meeting the agenda of sustainable development — balanced approach to economic progress, social progress and environmental protection.	135
CSR (Companies Act 2013)		135-136

Term	Definition	Page
	Applicable to companies with turnover Rs. 1,000 crore+, OR net worth Rs. 500 crore+, OR net profit Rs. 5 crore+; spend 2% of avg net profit of last 3 years.	
CSR Committee	Committee under Clause 135 with at least one independent director, responsible for the CSR policy.	136
Economic responsibility	Producing goods and services society wants and selling at a profit — primary responsibility, little discretion.	140
Legal responsibility (kind)	Obligation to operate within the laws of the land.	140
Ethical responsibility	Behaviour expected by society but not codified in law (e.g., respecting religious sentiments).	140
Discretionary responsibility	Purely voluntary obligation, e.g., charitable contributions, flood/earthquake relief.	140
Environment	Totality of man's surroundings — both natural and man-made.	141
Pollution	Injection of harmful substances into the environment, beyond its assimilation capacity.	141-142
Hazardous pollutants	Toxic by-products and chemicals which the environment cannot assimilate.	142
Air pollution	Lowering of air quality, mainly due to carbon monoxide from automobiles and smoke/chemicals from manufacturing plants.	142
Water pollution	Pollution caused by chemical and waste dumping into rivers, streams and lakes.	142
Land pollution	Pollution from dumping of toxic wastes, making land unfit for agriculture.	143
Noise pollution	Noise from factories and vehicles — annoyance and serious health hazard (loss of hearing, heart malfunction, mental disorder).	143
Caveat emptor	Doctrine of "let the buyer beware" — now replaced by "customer is king".	139
Ethics	Body of moral values society attaches to actions of human beings — just and fair conduct beyond laws.	146
Business ethics	Socially determined moral principles which should govern business activities.	146
Code (of ethics)	Written document defining principles of conduct for the whole organisation (honesty, product safety, workplace safety, conflicts of interest etc.).	147
Top management commitment	First element of business ethics — leadership from CEO and senior managers.	147

Term	Definition	Page
Compliance mechanism	Element of business ethics — ethical recruitment/training/auditing and channels to report unethical behaviour.	147
Environment Action Plan (EAP)	Government of India action plan for environmental protection.	145

2.3 Diagrams / processes to remember

Four boxed visuals that CUET routinely picks from:

Box: Corporate Social Responsibility (NCERT pp. 135-136) reproduces the European Commission and World Business Council for Sustainable Development definitions of CSR, and lays out the Companies Act 2013 Clause 135 thresholds and the 2% spending rule. Students should be able to recite the three thresholds (Rs. 1,000 crore turnover / Rs. 500 crore net worth / Rs. 5 crore net profit) and the 2%-of-three-year-average rule from memory.

Box: Environmental Problems (NCERT p. 142) lists the UN's eight problems: (i) Ozone depletion, (ii) Global warming, (iii) Solid and hazardous wastes, (iv) Water pollution, (v) Freshwater quality and quantity, (vi) Deforestation, (vii) Land degradation, (viii) Danger to biological diversity. This box is the canonical source for any CUET stem on "global environmental problems".

Box: Environmental Protection in India (Steps by the Government) (NCERT p. 145) lists six laws — Wildlife Protection Act 1972, Water (Prevention and Control of Pollution) Act 1974, Air (Prevention and Control of Pollution) Act 1974, Environment (Protection) Act 1986, Forests (Conservation) Act 1980, Hazardous Wastes Act 1989 — and three institutions: Department of Environment (created 1980), National Afforestation and Eco-development Board, and Environment Action Plan (EAP). CUET assertion-reason items often pair an environmental problem with the relevant statute.

Box: Ground Rules of Ethics (NCERT p. 148) lists six universal virtues: (a) be trustworthy, (b) respect for others, (c) own responsibility, (d) fair in dealings, (e) caring towards well-being of others, (f) prove to be a good citizen. These six are the closest thing to a "principles of ethics" list and are a frequent source of fill-in-the-blank items.

A useful "logic diagram" to memorise is the **classification tree of social responsibility**: Social Responsibility branches into four kinds — Economic (primary, profit-bearing), Legal (compliance), Ethical (expected but uncodified), Discretionary (purely voluntary). Reading the tree left-to-right also captures the "discretion gradient" from low (economic) to high (discretionary).

2.4 Common confusions / NTA trap points

1. **Social responsibility vs Legal responsibility** — social is **broader**; it includes legal obligations PLUS voluntary action. CUET stems regularly invert this (NCERT §6.2, p. 134-135).



2. **Four kinds of social responsibility** — economic, legal, ethical, discretionary. Remember the order from **least discretionary** (economic) to **most voluntary** (discretionary). NTA picks examples and asks the student to classify (NCERT §6.4, p. 140).
3. **CSR thresholds under Companies Act 2013** — Rs. 1,000 crore turnover / Rs. 500 crore net worth / Rs. 5 crore net profit — three independent thresholds. CSR spending is **2% of average net profit of previous three years** — not five years, not current year.
4. **Arguments count** — arguments **for** social responsibility are **eight**; arguments **against** are **four**; reality forces are **seven**. CUET picks one item and asks which list it belongs to.
5. **Caveat emptor vs customer is king** — caveat emptor is the OLD principle ("let the buyer beware") REPLACED by 'customer is king'. NTA likes to flip these (NCERT §6.3.3 (iii), p. 139).
6. **Discretionary vs Ethical responsibility** — discretionary is purely voluntary (charity, disaster relief); ethical is what society expects but is not in law. These are distinct categories within the four-kind classification (NCERT §6.4, p. 140).
7. **Functions of management vs elements of business ethics** — these are unrelated lists but CUET sometimes drops a "publication of a Code" option into a management-functions question to test whether students conflate them.
8. **Threat of public regulation** appears in §6.3.3 as a **reality factor** — NOT as an argument against social responsibility. CUET frequently misplaces this option to test the student's recall of which list it belongs to (NCERT p. 138-139).
9. **Element of business ethics — five not four** — top management commitment, Code, compliance mechanism, employee involvement, measuring results. NTA distractors sometimes add "maximisation of shareholder dividend" (NCERT §6.7.2, p. 147).
10. **Pollution types — four not three** — air, water, land, noise. Students often forget noise pollution; CUET item-writers exploit this (NCERT §6.6.1, p. 142-143).
11. **Environment Act 1986** is the **umbrella** statute; sector-specific Acts (Water 1974, Air 1974) preceded it. CUET sometimes tests the chronological order.

2.5 Case examples

- **Tata Group CSR initiatives (NCERT context, § 6.5)** — Tata Sons' long history of community contribution (Jamshedpur township, JRD Tata Trusts, Tata Institute of Social Sciences) is the canonical Indian example of discretionary social responsibility, illustrating "developed proper image" and "social welfare beyond wage relations".
- **ITC's e-Choupal (NCERT context, § 6.5 community responsibility)** — referenced as an example of how a business can deliver economic value to a rural community by combining commercial logic with social benefit (price transparency, direct procurement, digital literacy for farmers).

- **Infosys Foundation (NCERT context, § 6.4 discretionary responsibility)** — invoked as a model of voluntary corporate philanthropy in education and healthcare, exemplifying the "discretionary" kind of responsibility — purely voluntary contributions to society beyond economic, legal and ethical obligations.
- **Reliance Foundation (NCERT context, § 6.4 discretionary responsibility)** — community-development arm of Reliance Industries, cited as a contemporary CSR vehicle under the Companies Act 2013 framework with focused programmes on rural transformation, education and health.
- **Maruti Suzuki ethics breach scenarios (NCERT § 6.7)** — product-safety codes and the need for ethical conduct on advertising and customer dealings apply directly to the auto industry. Cases of misleading advertising or product-safety lapses by major Indian companies are the live cases worth studying.

Practice MCQs

Q1. Social responsibility of business is broader than legal responsibility because:

- A.** It applies only to listed companies under the Companies Act 2013
- B.** It involves an element of voluntary action by business people beyond what is required by law
- C.** It is enforceable by courts whereas legal responsibility is not
- D.** It is concerned only with profit maximisation

Q2. As per Clause 135 of the Companies Act, 2013, CSR provisions are applicable to companies having:

- A.** Annual turnover of Rs. 500 crore or more
- B.** Net worth of Rs. 1,000 crore or more
- C.** Net profit of Rs. 5 crore or more
- D.** Annual turnover of Rs. 100 crore or more

Q3. Which of the following is NOT one of the arguments against social responsibility of business?

- A. Violation of profit maximisation objective
- B. Burden on consumers
- C. Lack of social skills
- D. Threat of public regulation

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PYQ Alignment

This chapter is a high-yield CUET source, typically producing ~6 MCQs per year. Recall-heavy questions on the Companies Act 2013 CSR thresholds, the four kinds of responsibility, the lists of arguments for/against, and the five elements of business ethics dominate; statement-based and match-the-following items frequently test the seven "reality of social responsibility" forces and the four kinds of pollution. See the cross-subject PYQ pool at </pyq/business-studies> .