

# LEGALFOXES LAW TIMES

## CORPORATE SOCIAL RESPONSIBILITY AND SECURITY

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“We are living in a Multi-Institutional Society” as peter Drucker said. To serve the multiple needs of the society are multiple organizations or institutions. There universities to educate people. There are hospitals to look after their health. There are bank to look after their wealth. There are business organizations to facilitate their business activities each of these institutions has own functions. It is natural to expect that they become efficient and effective in discharging their functions. It is natural to expect that they become efficient and effective in discharging their functions in order to coordinate and regulate all theses institutions is the super institution which we call Government.

For the society to be peaceful and progressive. It is necessary that all these institutions function effectively whether it is a corporation or Government. Any organization is formed by a group of persons coming together and so it is naturally bigger than any of the members in the case of a business organization, it is formed for the purpose of economic activity which needs money and it is collected formed the members.

President Coolidge boasted “Business of America is Business”. Yes, Friedman the business of business is to produce economic benefits if fails to produce economic benefit, it goes out of existence. It is also not only for the members but to the entire society since the failure is the result of inefficient use of the assets that where placed as its disposal. It is was successful there would have been profit which could have been used for many other purposes to the satisfaction of society. That opportunity is lost because of its failure that is why

it is necessary for the corporation to function efficiently and earn profits. Friedman and Ducker declared that it is the primary criterion of a business organization. Other things are only secondary and consequential, economic scoop less is the purpose for which the management of the corporation is mandated to run the business organization.

The arrived of a business corporation creates waves in the society when n Industry is established people expect to get employment and business opportunities welfare of people is the basic responsibility of Government for that an honorable means of livelihood is to be shown. Employment is the best way for it. That is why the Government are anxious to encourage industries. But industries are not established to provide employment. Their purpose is economic and as prudent management they take minimum number of employees depending on its operations.

Social responsibility is to the people societies are not homogeneous. The people are of different Ideologies, aspirations and at different lends economically and intellectually.

No management adds costs voluntarily. Having caused damage, repairing it now cannot claim as discharge of social responsibility. The social responsibility that is involved in governance must be some thing over and above the repair damage caused by itself.

The costs of reducing or preventing pollution must be accepted as costs of operation of an industrial unit, if it becomes uneconomic by that, the industry loses its relevance.

The corporation is a creator of law. It is more helpless than even a minor. A minor has like and dislikes, which he could express. The corporation could not do that even. It depends exclusively on law to protect its interests when the law

provided that the funds and assets of the corporation shall not be used except for its business purposes. It was hailed as a golden rule to protect the interests of the corporation against misuse. So many provisions are made in the companies act to protect the corporation against mismanagement. But now the law has come to a stage where the corporation is being compelled to spend its profits only a part of course for extraneous purposes in the name of social responsibility. The business corporation is not an organization designed for that purpose.

Corporation cannot do anything by themselves. Whatever is done in the name of the corporation is actually done by the manager behind the corporate veil. By making political contributions and charities, the manager is getting credit for it. In fact he is purchasing credit and influence at the expense of the corporation. The political authorities are interested in it and they facilitate it by amending the law to provide for it. The corporate social responsibility is a new gate that is being opened now to plunder the funds of business organization. The directors are not under obligation to declare a dividend even when the profits are sumptuous. But now they are they under obligation to serve the society at large and show magnanimity at the cost of the corporation to which they have a fiduciary responsibility.

Most of the things that management does as part of its responsibility are being shown as social service. Actually, it is an effort to cover deficiency in management. "Fair trade" is an organization that works to ensure reasonable price to farmers. Cadbury's purchases substantial quantities of cocoa that is certified by fair trade. They claim by that they are conscious of their social responsibility to ensure reasonable price farmers

In fact they are obliged to do it ensure regular supply of the product for their business over long periods. Production of coco fell supply between 2006-2008 there were apprehensions that the farmers of cocoa may leave farming and their children were diverting to other lines of life. Fair trade is an organization

that is encouraging investments in cocoa farming and makes it economic. There is business reason for them to keep fair trade in between. The business of Cadbury's is sustainable because the supply of cocoa is sustainable.

There have been strong arguments from different quarters that corporations shall get involved in solving social problems and improve conditions of downtrodden people. Charity is a noble gesture, but only when you do it out of your own accord and at your own expense. You cannot donate funds belonging to others and say that you are magnanimous. Corporate social responsibility amounts to that only.

Strictly speaking it is not wise for the business organization to poke its nose in social problems. It is not to be cause Friedman suggested it. By practical experience also it is better if the business organization keeps away from social issue.

The history of amendments of companies act to allow contributions to political parties and charitable causes that whenever there is money there is temptation to catch hold of it by hook or crook. It is particularly so if it belongs to no particular individual. The body corporate is not individual, it cannot safe guard itself except with the help of law. If law itself betrays it. It is helpless. These amendments are worked as enabling provisions. There is no compulsion. But once the possibility is created pressure starts to build up on the management to involve the provision and give something. The management obliges. After all, they are not giving from their pocket. Why should they displease the political anger that one day may become the minister, More over it could enhance the image of the manager that obliged at no cost to him.

Spending by companies on social causes is an age-old habit even before the concept of corporate governance has arrived. It was all voluntary without expecting anything in return. The good will Is a bonus. Shareholders did not

grudge that much in indulgence on the part of the board. But to make it an obligation's wrong. To say that the corporation has it responsibility to that is a dangerous concept. Some companies encourage employees to serve as volunteers on social cause and reward them.

