Module-3

a) Social Responsibilities of Business
b) Entrepreneurship

Syllabus:

Leadership:
Meaning, Characteristics, Behavioural Approach of Leadership; Coordination-Meaning, Types, Techniques of Coordination; Controlling — Meaning, Need for Control System, Benefits of Control, Essentials of Effective Control System, Steps in Control Process
Social Responsibilities of Business:
Meaning of Social Responsibility, Social Responsibilities of Business towards Different Groups, Social Audit, Business Ethics and Corporate Governance

2.1 Leadership

The leaders while influencing the subordinates perform the following functions:

- ***Taking initiative*: ** A leader has to take all initiative to lead the business activities. He himself should come in the field and take all steps to achieve predetermined targets. Hence a leader is initiator.
- ***Guide:*** A leader has the primary duty of guiding others by communicating instructions and orders.
- ***Representation*:** A leader is a representative of the organization.
- ***Encouraging others*:** A leader is the captain of the team. Encouragement is necessary to build teamwork. The leader must win the confidence of his colleagues.
- ***Arbitrator and mediator*:** A leader has to create a smooth relationship among employees. In addition, he has to settle disputes arising among employees.
- ***Planner:*** A leader makes decisions concerning the ways and means by which the organizational goals can be achieved.
- ***Administrator of rewards and punishments*:** Leaders encourage, upgrade, promote deserving people and reprove, transfer and fine inefficient workers.

2.1.1 Leadership Styles

Leadership styles are also broadly classified based on three points of view: Motivation, Authority and supervision.

1. On the basis of motivation leadership style can be positive or negative style

2. On the basis of Authority, leadership styles are divided into three types namely

   i. Autocratic/Authoritative Style
   ii. Democratic/Participative Style
   iii. Laissez Faire/ Free Rein Style

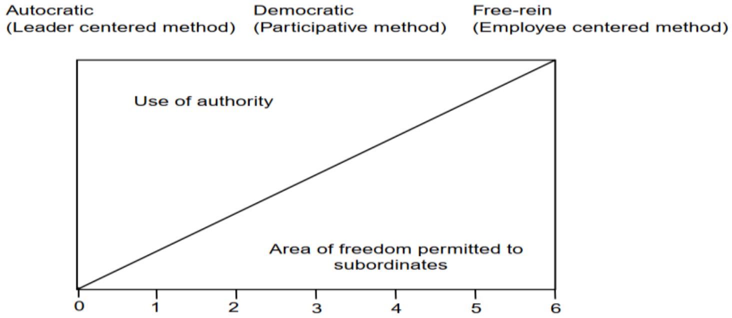


Fig 4.1: Spectrum of leadership styles

i. **<u>Autocratic Leadership</u>**

- An autocratic leader is one who dominates and drives his subordinates through coercion (the practice of persuading someone to do something by using force or threats), command and the instilling of fear in his followers.
- An autocratic leader alone determines policies plans and makes decisions.
- It demands strict obedience. Such leaders love power and love to use it for promoting their own ends.
- They never like to delegate their power for they fear that they may loose their authority.

Merits	**Demerits**
It can increase efficiency	People are treated machine-like cogs without human dignity
Save time	One way communication without feedback
Get quick results under emergency conditions	The leader receives little or no input from his subordinates for his decision-making which is dangerous in the current dynamic environment.
Chain of command and division of work are clear	

ii. **<u>Democratic Leadership</u>**

- Also known as participative leadership.
- In this style, the entire group is involved in goal setting and achieving it.
- A democratic leader follows the majority opinion as expressed by his group.
- Subordinates have considerable freedom of action.
- The leader shows greater concern for his people's interest, is friendly and helpful to them.
- He is always ready to defend their subordinates individually and collectively.

Merits	Demerits
Leadership encourages people to develop and grow	Some leaders may use this style as a way of avoiding responsibility
Receives information and ideas from his subordinates to make decisions	Can take enormous amount of time for making decisions.
Boosts the morale of employees	

iii. <u>Free-Rein Leadership</u>

- The leaders exercise absolutely no control
- He only provides information, materials and facilities to his subordinates.
- Leadership is employee centered
- The subordinates are free to establish their own goals and chart out the course of action.
- Leadership can be disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom. know well the competence and integrity of his people and their ability to handle this kind of freedom.

2.21 Coordination

- ➢ Coordination deals with the task of blending efforts in order to ensure successful attainment of an objective. It is accomplished by means of planning, organizing directing and controlling.
- ➢ Coordination is the orderly arrangement of group efforts to provide unity of action in pursuit of a common purpose.

Table 4.2: Distinction between coordination and cooperation

Basis	Coordination	Cooperation
1. Definition	It is a deliberate effort by a manager	It is voluntary attitude of organization members
2. Purpose	It is an orderly arrangement of group efforts to provide unity of action in the pursuit of common objectives.	It denotes collective efforts of the group contributed voluntarily to accomplish a particular objective.
3. Relations	It is achieved through both formal and informal relations.	Cooperation arises out of informal relations.
4. Result	Coordination seeks whole hearted support of employees and departments	Cooperation without coordination is fruitless.

2.21.1 Importance of coordination

- Coordination increases efficiency.
- Coordination improves human relations.
- Coordination resolves conflicts.
- Coordination makes all departments focus together.
- Coordination helps sharing of resources.
- Coordination retains & attracts talent.

2.21.2 Techniques of Coordination

1. **Clearly defined Objectives-**Each and every organization has its own objectives. Unity of purpose is a must for achieving proper coordination.

2**. Effective Chain of Command-**There is a line of authority in every enterprise which indicates as to who is accountable to whom. The line of authority and responsibility should be clearly defined to achieve coordination.

3. **Precise and Comprehensive Programmes and Policies-**This brings uniformity of actions because everybody understands the programmes and policies in the same sense.

4. **Planning-**Planning ensures coordinated efforts

5. **Cooperation-**Cooperation is the result of better relations among employees of the organization.

6. **Liaison of Officers/Departments-** A person who acts as a link between two persons is called a liaison officer. The external coordination is obtained through him.

7. Induction-Inducting the new employee into the new social setting of his work is also a coordinating mechanism.

8. Incentives-Incentives may be in the form of increments in the scale of pay, bonus, profit sharing etc. These schemes of incentives promote better team spirit which subsequently ensures better coordination.

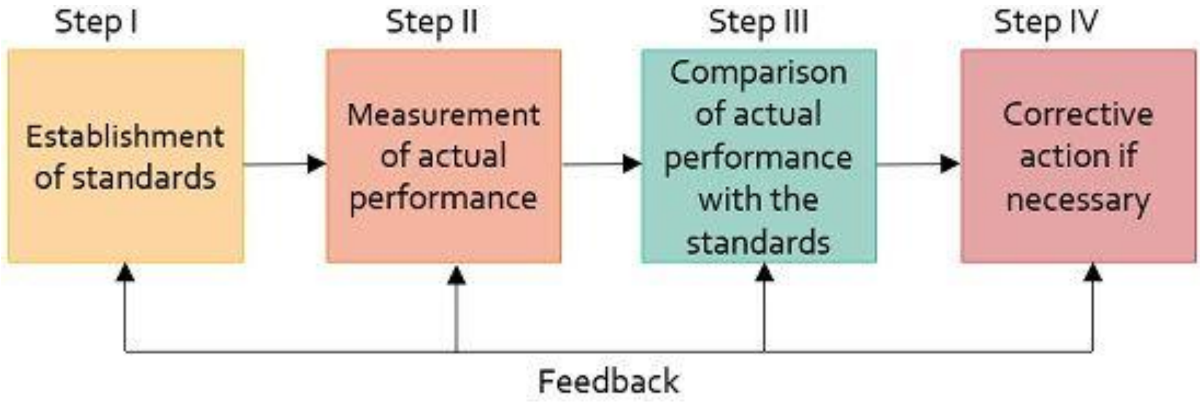
9. **Workflow-**A workflow is the sequence of steps by which the organization acquires inputs and transforms them into outputs and exports these to the environment.

2.22 Managerial Control

- Control is checking current performance against predetermined standards contained in the plans, with the view to ensuring adequate progress and satisfactory performance.
- Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary applying corrective measures so that the performance takes place according to plans.

- Only a continuous control can achieve the objective.

2.22.1 Steps in Controlling



i. Establishment of standards: A standard acts as a reference line or a basis of actual performance.
   - Quantitative standards: production level, labor hour, expense, profit
   - Qualitative standards: employee morale, company image, industrial relations
   - Different types of standards used are:
     - ✓ Physical standards such as units of production per hour.
     - ✓ Cost standards, such as direct and indirect cost per unit.
     - ✓ Revenue standards such as sales per customer.
     - ✓ Capital standards such as rate of return of capital invested.
     - ✓ Intangible standards such as competency of managers and employees.

ii. Measuring and comparing actual performance with standards
   - It includes measuring the actual performance of individuals, group or units and comparing it with the standards. The quantitative measurement should be done in cases where standards have been set in numerical terms.
   - This will make evaluation easy and simple. In all other cases, the performance should be measured in terms of qualitative factors as in the case of performance of industrial relations manager.
   - Once the performance is measured, it should be compared with the standards to detect deviations. Some deviations are desirable such as the output above the standard.

iii. Taking corrective measures
   - Change in methods, rules, procedures, etc
   - Introduce training program
   - Job redesign

- Replacement of personnel
- Re-establishing budgets & standards
- Better compensation packages to employees
- Changing machinery & processes
- Identify recurring bottlenecks (A bottleneck is **a situation that stops a process or activity from progressing**.) & avoiding them

2.23 Essentials of a control system

- Clear definition of objectives & standards.
- Selecting efficient control techniques.
- Suitability of control system
- Simplicity
- Focus on key area
- Flexibility
- Reasonable & practical
- Economical
- Self control
- Acceptable to all

2.23.1 Control Methods

***Past-oriented controls*:**

- Past-oriented control measure results after the process.
- These are also known as post action controls.
- They examine what has happened in the past for a particular period.
- Examples of past-oriented controls are accounting records, school grade reports etc

***Future-oriented controls*:**

- These are also known as feed-forward controls or steering controls.
- These controls are designed to measure results during the process.
- Examples of such controls are cash flow and funds flow analysis, network planning etc.

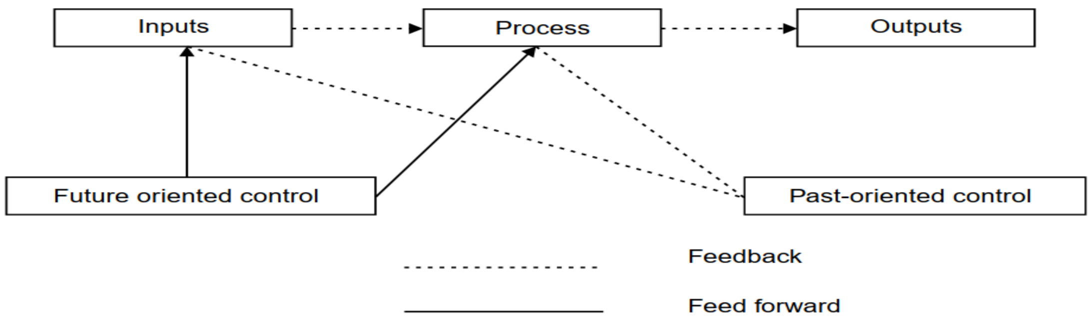


Fig. 4.6: Comparison of past-oriented and future-oriented controls

2.23.2 Methods and Techniques of Controlling in Management

- Direct Supervision and Observation:
- Budgets:
- Financial Statements:
- Ratio Analysis:
- Break-Even Analysis:
- Audits:
- Management by Objectives:
- CPM and PERT

2.23.3 Techniques of Coordination

- Coordination by plans & procedures.
- Coordination by sound & simple organization.
- Coordination by chain command.
- Coordination by effective commutation.
- Coordination by committees.
- Coordination by conference.
- Coordination by special coordinators.
- Coordination through sound leadership

3.1 Social Responsibility-Meaning

- Social responsibility contends that management is responsible to the organization itself and to all the interest groups with which it interacts.
- Other interest groups such as workers, customers, creditors, suppliers, government and society in general placed essentially equal with shareholders.
- Social responsibility refers to the ethical duty that individuals, organizations, and businesses have to act in the best interests of society.
- It involves ethical conduct by acting with integrity and fairness, environmental sustainability through practices that protect the environment, and community engagement by contributing to local development.

3.2 Responsibility towards different groups

All those who participate in the activities of organization is called stakeholder of a business.

Stakeholders includes:

1.Shareholders
2.Workers
3.Customers
4.Creditors,suppliers
5.Government
6.Society/Environment

1. **Responsibility towards Share Holders**
   - Return on their investment
   - Providing relevant information
   - Increasing their assets
   - Request suggestions
   - Improving public image of company

2. Responsibility towards Employees
- Fair wages and salaries.
- Good & safe working condition.
- Opportunities for education training & promotion.
- Worker's participation in decision making
- Reasonable and proper chance for promotion
- Proper recognition, appreciation and encouragement of skills.
- The installation of efficient grievance handling system

3. Responsibility towards Customers
1. True and fair information through advertisement.
2. Regular supply of good.
3. Charge reasonable price.
4. Avoid black marketing
5. To understand needs and wants of the customers.
6. To provide required after sale services.
7. To ensure product has no adverse effects on consumers

4. Responsibility towards creditors or suppliers
- Maintaining a healthy and cooperative in-ter business relationship between different business.
- Mgt. Should provide accurate and relevant information to creditors and suppliers.
- Payment of price of materials, interest on borrowings, other charges should be prompt

5. Responsibility towards Government
- To abide the laws of the land.

- To pay taxes honestly.
- To avoid corrupting.
- To encourage fair trade.
- To avoid monopoly.

6. Responsibility towards Society/ Environment

- To help the weaker and backward sections of the Society
- To preserve and promote social and cultural values
- To generate employment
- To protect the environment to conserve natural resources and wildlife
- To promote sports and culture
- To provide assistance in the field of developmental research on education, medical science, technology.

3.3. Social audit

Defn: A social audit is a formal review of a company's endeavors, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility. Ideally, companies aim to strike a balance between profitability and social responsibility.

Understanding a Social Audit:

- A social audit is an internal examination of how a particular business is affecting society.
- The audit helps companies to determine if they're meeting their objectives, which may include measurable goals and benchmarks.
- A social audit serves as a way for a business to see if the actions being taken are being positively or negatively received and relates that information to the company’s overall public image.
- In the era of corporate social responsibility (CSR), corporations are often expected to deliver value to consumers and shareholders as well as meet environmental and social standards. Social audits can help companies create, improve, and maintain a positive public relations image.

3.3.1 Factors Examined in a Social Audit

Some of the guidelines and topics that comprise a social audit include the following:

- Environmental impact resulting from the company's operations
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency
- Community development and financial contributions
- Charitable giving
- Volunteer activity of employees
- Energy use or impact on footprint
- Work environment including safety, free of harassment, and equal opportunity
- Worker pay and benefits
- Nondiscriminatory practices
- Diversity

3.3.2 Types of Social Audit

- **Social Process Audit-**It tries to measure the effectiveness of those activities of the organization which are largely taken up to meet certain social objectives
- **Financial Statements Format Social Audit**-In this type, financial statements show conventional financial information plus information regarding social activities
- **Macro-Micro Social Indicator Audit-**This type of audit requires evaluation of a company’s performance in terms of social measures (micro indicators) against macro social measures
- **Social Performance Audit**-In developed countries, several interests groups including church groups, universities, mutual funds, consumer activists regularly measure, evaluate and rank socially responsive companies on the basis of their social performance.
- **Partial Social Audit**-In this case, the company undertakes to measure a specific aspect of its social performance
- **Comprehensive Audit**-It tries to measure, verify and evaluate the total performance of the organization including its social responsibility activities.

3.4 Corporate Governance

- **Corporate –** It is defined as a business or organization formed by a group of people and it has rights and liabilities separate from those of the individuals involved.
- **Governance** - It is defined as the Act of governing. It relates to decisions that define expectations, grant power, or verify performance. In the case of a business or non - profit organization, governance relates to consistent management, cohesive policies, and guidance, process and decision rights for a given area of responsibilities.
- **Corporate Governance -** Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. It considers the welfare of the all stakeholders and the society. Corporate governance covers the areas of environmental awareness, ethical behavior, corporate strategy, compensation, and risk management

3.4.1 Benefits of Corporate Governance

- Good corporate governance creates transparent rules and controls, provides guidance to leadership, and aligns the interests of shareholders, directors, management, and employees.
- It helps build trust with investors, the community, and public officials.
- Corporate governance can provide investors and stakeholders with a clear idea of a company's direction and business integrity.
- It promotes long-term financial viability, opportunity, and returns.
- It can facilitate the raising of capital.

- Good corporate governance can translate to rising share prices.
- It can lessen the potential for financial loss, waste, risks, and corruption.
- It is a game plan for resilience and long-term success.

3.4.2 Objectives of corporate governance

1. To mitigate conflicts of interest

2. To ensure that the assets of the company are used efficiently and productively and in the best interest of its shareholders and stakeholders.

3. To create a trust in the corporate and its abilities

4. To improve efficiency of capital market

5. To promote a healthy environment for long term investment

3.5 Ethics

- It is a branch of philosophy and is considered as a normative science because it is concerned with the norms of human conduct.
- Ethics is a conception of right and wrong behavior, defining for us when our actions are moral and when immoral.

3.5.1 Business Ethics

- Business is the art and discipline of applying ethical principles to examine and solve complex moral problems.
- A business is considered to be ethical only if it tries to reach a trade off between pursuing economic objective and its social obligations.

3.5.2 Importance of Business Ethics

- Ethical is all about developing trust, maintaining it fruitfully so that the firm flourishes profitably and maintain good reputation. Trust leads to predictability and efficiency of the business.
- Trust is used as a indicator variable of ethics. Basically trust is three dimensional i.e., trust in supplier relationships, trust in customer relationships, and employee relationships.
- If the company is able to maintain trust Relationship with all stakeholders, then we call that company an ethical company
- Boeing, J&J, Tata Steel and Ford are the companies which succeeded in following in ethical practices.

3.5.3 Basic Principles of Business Ethics

- **Honesty:** Ethical executives are truthful in all dealings, avoiding misrepresentation and deception.

- **Integrity:** They uphold personal integrity, acting on their principles even under pressure.
- **Promise-Keeping & Trustworthiness:** They are trustworthy, fulfill promises, and provide relevant information honestly.

- **Loyalty:** They are loyal to their organizations, avoid conflicts of interest, and respect proprietary information.
- **Fairness:** They are just and equitable, avoiding the misuse of power or taking undue advantage.
- **Concern for Others:** They are compassionate and aim to do the least harm while achieving business goals.
- **Respect for Others:** They treat everyone with dignity and respect, irrespective of differences.

b) Entrepreneurship

3.6 Entrepreneur

- An **Entrepreneur** in any given economy is an individual who introduces some thing new in the economy- *Joseph Schumpeter*
- Entrepreneur is a person who undertakes an enterprise. The process of creation is called **entrepreneurship.**
- This refers to those who "undertake" the risk of new **enterprises**. An enterprise is created by an entrepreneur.
- An entrepreneur can be considered as a person who bears the risk of operating a business in the face of uncertainty about the future conditions.
- An entrepreneur may be in control of a commercial undertaking, directing the factors of production – the human, financial and material resources – that are required to exploit a business opportunity.
- Entrepreneurs act as managers and oversee the launch and growth of an enterprise.
- Entrepreneur is one
  - ✓ Who innovates and introduces something new in the economy.
  - ✓ Who shifts resources out of an area of lower and into an area of productivity and greater yield.
  - ✓ Who plays a critical role in economic development and an integral part of economic transformation.

3.7 Importance of Entrepreneurship

- **Development of Managerial Capabilities:** Entrepreneurship sharpens decision-making skills as entrepreneurs study problems, evaluate alternatives, and choose the best solutions.

- **Creation of Organizations:** Entrepreneurs form organizations by coordinating physical, human, and financial resources to achieve objectives, demonstrating effective managerial skills.

- **Improving Standards of Living:** By creating diverse and productive organizations, entrepreneurship increases the availability of goods and services, raising the living standards of people.

- **Economic Development:** Entrepreneurship drives economic growth through innovative ideas, resource optimization, and the development of managerial skills.

- **Creation of Job Opportunities:** Entrepreneurial ventures generate significant employment, providing entry-level jobs and supplying skilled labor to larger industries.

- **Innovation:** Entrepreneurs foster innovation, leading to new products, technologies, and markets. This innovation boosts GDP and enhances living standards.

- **Enhancing Standard of Living:** Entrepreneurship diversifies product availability, increases employment, and raises incomes, thus improving the standard of living.

- **Promoting Research and Development:** Entrepreneurs fund R&D, driving general advancements in the economy and contributing to economic, technological, and cultural prosperity.

- **Encouraging Competition:** Entrepreneurship introduces new products and services, which increases competition in the market. This competition leads to better quality, lower prices, and more choices for consumers.

- **Social Change:** Entrepreneurs often address societal challenges by creating innovative solutions that improve quality of life, such as renewable energy technologies, affordable healthcare, and education initiatives.

3.8 Characteristics of a Successful Entrepreneur

i. **Risk-taking Ability**: Entrepreneurs courageously evaluate and undertake risks associated with starting new ventures, recognizing them as opportunities for growth.

ii. **Innovation**: Successful entrepreneurs are innovative, continuously introducing new products, services, or business models to meet market needs or create new demands.

iii. **Vision**: They possess a clear vision for their venture, guiding strategic direction and inspiring others towards achieving business goals.

iv. **Leadership**: Effective leadership is crucial. Entrepreneurs motivate and empower their teams, fostering a collaborative environment aimed at success.

v. **Open-Mindedness**: Entrepreneurs view challenges as opportunities, adaptively adjusting strategies to leverage changing market dynamics.

vi. **Flexibility**: They are adaptable, willing to pivot or modify their offerings in response to customer feedback and market trends.

vii. **Market Knowledge**: Understanding market trends, customer preferences, and industry dynamics informs strategic decision-making and innovation.

viii. **Persistence**: Entrepreneurs persevere through setbacks and failures, demonstrating resilience in pursuing long-term objectives.

ix. **Networking**: Building and leveraging networks is essential. Entrepreneurs cultivate relationships to gain insights, partnerships, and opportunities.

x. **Customer Focus**: They prioritize understanding and meeting customer needs, ensuring products or services provide value and satisfaction.