

Exit Strategies and Social Responsibility

Q) Reasons for Existing

Business Exit Reasons and Strategies

An exit occurs when an owner decides to end his involvement with a business. Most often such an exit is accompanied by a sale of the owner's stake in a company, but this is not a necessary condition. For example, an entrepreneur may hire a management team to run the business but still retain his equity. Depending on the circumstances under which the exit occurs, the shareholder can either make a profit or a loss. This article provides an overview of the types of exit available to entrepreneurs and discuss when you should consider one.

Business Exit Reasons

If you find yourself in one or more of the following scenarios, you should consider exiting the business.

IPO READY

If you have been able to rapidly grow your business to a point where there is broad acceptance of its success, you may be ready to accept public investors for your business via an IPO. Typically, you need a large and diversified user or customer base, a stellar team, growing revenues, and profitable financials to achieve this stage although the last requirement is often ignored in high-growth industries such as technology.

In the US, you will generally need \$10 million in pre-tax earnings over the last three years, at least \$2 million of which should have been earned in each of the last two years. For a more precise breakdown of the financial requirements of an IPO, read this. The stock exchanges also offer alternative requirements based on metrics such as market cap and revenue for large companies that do not meet the profit conditions.

Since an IPO involves considerable effort and expense, you should only consider it when you have achieved a scale that will justify these costs. A successful IPO can provide a very good exit strategy for the entrepreneur who wants to end his involvement with the business.

MARKET UNCERTAINTY

Sometimes, owners of successful businesses decide to cash out because of uncertainty about future market developments.

If you are selling in the luxury segment, in times of financial crisis, your target consumer might have less disposable income to spend on your products. Sometimes, changes in business regulations or government policies can adversely affect a business. In another case, a competitor enters the market and threatens your business model. Following Uber's disruption of the taxi market, particularly in the USA, many owners of traditional taxi businesses have looked for a way to exit.

In each of these situations, it may make sense for the entrepreneur to pre-emptively plan and exit the business.

BUSINESS FAILURE

If you continue losing money after having tried a variety of approaches to stabilize the business, it may sometimes be best to call it quits. Quitting might be a wise decision if you are several years into your venture and still have no traction; customers still respond to your sales pitch with a blank stare.

You can read some informative anecdotes about failing businesses here. Continued operations may result in additional losses which will further erode your net worth.

BOREDOM WITH ROUTINE

Many entrepreneurs go into business because they are unhappy with the routine nature of a 9 to 5 job. If you're this type of entrepreneur, you are motivated by novelty, by exciting new fields, by striking out on your own and doing something different every day.

If your company reaches the point where the business model is proven and it is simply an operational challenge, this personality type is likely to become restless and bored. After all, you started your business to do something exciting, not to create your own day job!

Consider selling up and rediscovering your spark in a new field. You might even have a new business idea of your own, devised while your current corporation was growing.

EXHAUSTION

Many entrepreneurs deal with financial uncertainty, deals falling through with investors or customers, and constantly changing business models. The more innovative the business idea, the less likely the average person is going to relate to you; feelings of loneliness are not uncommon. These are conditions that take a long-term toll on mental health.

A study by Dr Michael Freeman, clinical professor of psychiatry at the University of California and an entrepreneur, found that 49% of entrepreneurs have mental health problems. The most common of these is depression (30%), while 27% have anxiety. Stress is a major contributory factor to both of these illnesses, and some entrepreneurs choose to exit their companies to avoid burning out completely.

LIFESTYLE CHANGE

Perhaps your business doesn't suit your present lifestyle anymore. There could be several reasons:

1. You may have reached a certain financial success and want to enjoy the rest of your life.
2. You may have started a family and want to spend time with them instead of working 60-hour weeks.
3. You may have acquired a new hobby, or rediscovered an old one.
4. Lastly, as you start to slow down physically, it's understandable that you would want to sell your business to spend your energy on your family rather than work all the time.

Q) Long-Term Preparation.

In the long term, companies want to solve problems permanently and to reach their overall targets. Long-term planning reacts to the competitive situation of the company in its social, economic and political environment and develops strategies for adapting and influencing its position to achieve long-term goals. It examines major capital expenditures such as purchasing equipment and facilities, and implements policies and procedures that shape the company's profile to match top management's ideas. When short-term and medium-term planning is successful, long-term planning builds on those achievements to preserve accomplishments and ensure continued progress.

Long-term success

For most college students, it is difficult to explicitly name long-term success. There are so many factors and unanswered questions, and “a happy life” is a nebulous goal.

But it's worth thinking about the kinds of things and life you hope for in the longer term. These can help inform your short-term priorities, as well as mapping your path through college and into the post-graduation years.

HERE ARE SOME THOUGHTS TO START DEFINING LONG-TERM SUCCESS:

- **How important is money to you?** When you imagine success, do you picture nice possessions, a large house, and a certain kind of security and range of options? If so, it's important to keep this in mind while choosing a career and building a resume.
- **How important is intercultural dialogue and international travel?** For business or personal growth, do you picture being able to move and communicate in a globalized world? If so, language study and early international travel and work experience will serve you well.
- **Would you be willing to sacrifice some comforts for an artistic career?** If you feel driven to pursue art, are you prepared to put in the work both to perfect your art and to run the business/take on less rewarding work to support your vocation? What can you do now to progress as an artist and prepare for the rest?

When thinking about long-term goals, there is always a combination of strategy and passion. Where do you feel called to go? Does your passion fit with other goals?

Depending on what you want in the long term, there are lots of steps you can take now to make this happen. The combination of your personal goals and visioning of what career success would look like means that your grades may matter more or less, your major may be of vital or secondary importance, and internships/jobs during school might be critical or optional.

Q) Short-Term Preparation.

Short-term planning looks at the characteristics of the company in the present and develops strategies for improving them. Examples are the skills of the employees and their attitudes. The condition of production equipment or product quality problems are also short-term concerns. To address these issues, you put in place short-term solutions to address problems. Employee training courses, equipment servicing and quality fixes are short-term solutions. These solutions set the stage for addressing problems more comprehensively in the longer term.

A great place to start is asking yourself “what would it take to consider this academic year a success?” Make some lists (I really like lists—particularly if they’re a flexible combination of pie-in-the-sky and concrete plans).

SOME EXAMPLES OF SHORT-TERM GOALS:

- Academic
 - Grades
 - Making connections with mentors
 - Deciding on a major
 - Planning to study abroad
 - Completing graduation requirements
 - Progress on research/thesis writing

- **PERSONAL**

- Learning something new
- Traveling
- Planning adventures with friends
- Being part of a group/activity/organization that interests you
- Reading things you love
- Being in touch with family/old friends

- **PROFESSIONAL**

- Finding/creating an internship
- Working a part-time job
- Networking
- Informational interviews

All of these are just examples, and none of these are lists I have accomplished flawlessly during an academic year. *However, it's all worth striving for and adventures worth having, and all short-term goals that could come together to make a successful academic year.*

The key is that *you* define a successful year. When you're thinking about a short-term set of goals, it could very well be that finding a mentor would be equally important to getting a certain grade. Or that planning adventures/focusing on sports/travel with friends might matter more than working a part-time job. Or that you'll put a relationship in the backseat for now so that you can focus on an internship and writing your thesis.

Q) Introduction of Social Responsibility.

In your daily life, you perform a number of activities. For example, brushing your teeth, listening to your parents, showing respect to elders obeying traffic rules on road etc.

Why do you perform all these activities? It is because you live in a family as well as This is true in case of business also. As we know, every business operates within a society. It uses the resources of the society and depends on the society for its functioning. This creates an obligation on the part of business to look after the welfare of society.

Social responsibility of business refers to all such duties and obligations of business directed towards the welfare of society.

Let us take an example. A drug-manufacturing firm undertakes extensive research and thus, produces drugs which are qualitatively superior. It also provides scholarships or fellowships to the family members of its employees for studying abroad. We find, in both the cases, the drug-manufacturing firm is carrying out its social responsibility. In case of the former, it is a part of its routine business function while in the latter case it is a welfare function

Why Should The Business Be Responsible.

Public Image - The activities of business towards the welfare of the society earn goodwill and reputation for the business. The earnings of business also depend upon the public image of its activities. Again, good public image also attracts honest and competent employees to work with such employers.

Government Regulation - To avoid government regulations businessmen should discharge their duties voluntarily. For example, if any business firm pollutes the environment it will naturally come under strict government regulation, which may ultimately force the firm to close down its business. Instead, the business firm should engage itself in maintaining a pollution free environment.

Survival and Growth -Every business is a part of the society. So for its survival and growth, support from the society is very much essential. Business utilizes the available resources like power, water, land, roads, etc. of the society. So it should be the responsibility of every business to spend a part of its profit for the welfare of the society.

Employee satisfaction - Besides getting good salary and working in a healthy atmosphere, employees also expect other facilities like proper accommodation, transportation, education and training. The employers should try to fulfill all the expectation of the employees because employee satisfaction is directly related to

productivity For example, if business spends money on training of the employees, it will have more efficient people to work and thus, earn more profit.

Consumer Awareness - Now-a-days consumers have become very conscious about their rights. They protest against the supply of inferior and harmful products by forming different groups. This has made it obligatory for the business to protect the interest of the consumers by providing quality products at the most competitive price.

The business generally interacts with owners, investors, employees, suppliers, customers, competitors, government and society. They are called as interest groups because by each and every activity of business, the interest of these groups is affected directly or indirectly.

- Business
- Investors
- Employees
- Government
- Competitors Society
- Customers
- Suppliers

Responsibility towards owners

Owners are the persons who own the business. They contribute capital and bear the business risks. The primary responsibilities of business towards its owners are to:

- Run the business efficiently.
- Proper utilisation of capital and other resources.
- Growth and appreciation of capital.
- Regular and fair return on capital invested.

Responsibility towards investors

Investors are those who provide finance by way of investment in debentures, bonds, deposits etc. Banks, financial institutions, and investing public are all included in this category. The responsibilities of business towards its investors are:

- Ensuring safety of their investment,
- Regular payment of interest,
- Timely repayment of principal amount.

Responsibility towards employees

Business needs employees or workers to work for it. These employees put their best effort for the benefit of the business. So it is the prime responsibility of every business to take care of the interest of their employees. If the employees are satisfied and efficient, then the only business can be successful. The responsibilities of business towards its employees include:

- Timely and regular payment of wages and salaries.

- Proper working conditions and welfare amenities.
- Opportunity for better career prospects.
- Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc.
- Better living conditions like housing, transport, canteen, crèches etc.
- Timely training and development.

Responsibility towards suppliers

Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:

- Giving regular orders for purchase of goods.
- Dealing on fair terms and conditions.
- Availing reasonable credit period.
- Timely payment of dues.

Responsibility towards customers

No business can survive without the support of customers. As a part of the responsibility of business towards them the business should provide the following facilities:

- Products and services must be able to take care of the needs of the customers.
- Products and services must be qualitative
- There must be regularity in supply of goods and services
- Business Studies
- Price of the goods and services should be reasonable and affordable.
- All the advantages and disadvantages of the product as well as procedure to use
- the products must be informed do the customers.
- There must be proper after-sales service.
- Grievances of the consumers, if any, must be settled quickly.
- Unfair means like under weighing the product, adulteration, etc. must be avoided.

Responsibility towards competitors

Competitors are the other businessmen or organizations involved in a similar type of business.

Existence of competition helps the business in becoming more dynamic and innovative so as to make itself better than its competitors. It also sometimes encourages the business to indulge in negative activities like resorting to unfair trade practices. The responsibilities of business towards its competitors are

- Not to offer exceptionally high sales commission to distributors, agents etc.
- Not to offer to customers heavy discounts and /or free products in every sale.
- Not to defame competitors through false or ambiguous advertisements.

Responsibility towards government

Business activities are governed by the rules and regulations framed by the government. The various responsibilities of business towards government are:

- Setting up units as per guidelines of government
- Payment of fees, duties and taxes regularly as well as honestly.
- Not to indulge in monopolistic and restrictive trade practices.
- Conforming to pollution control norms set up by government.
- h. Not to indulge in corruption through bribing and other unlawful activities.

Responsibility towards society

A society consists of individuals, groups, organizations, families etc. They all are the members of the society. They interact with each other and are also dependent on each other in almost all activities. Thus, it has certain responsibilities towards society, which may be as follows:

- 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 etc.
- Protection of environment.
- Better living conditions like housing, transport, canteen, crèches etc.
- Promotion of sports and culture.
- Opportunity for better career prospects
- Regular supply of goods and services
- Proper working conditions and welfare amenities
- Goods and services at reasonable and affordable price.
- Prompt after sales services.
- Conservation of natural resources and wildlife.

Social values - refer to the general recognition in society about which acts are good and desirable on the part of people and which acts are not. In relation to business, social values of business may indicate:

- The characteristics of good business;
- Objectives which are desirable for business to follow; and
- The manner in which business activities should be conducted in the interest of society.

For example, we consider it bad, if any business indulges itself in selling adulterated goods or charging higher price or polluting the environment. Thus, social values of the business form the base for social responsibilities

Ethics- refers to conduct and activities of people based on moral principles. Honesty, truthfulness, compassion, sympathy, feeling of brotherhood etc. are considered ethical.

Business can also be guided by certain moral principles say, running the business without adopting unfair practices, being honest and truthful about quality of goods, charging fair prices, abiding to laws, paying taxes, duties and fees to the government honestly. Businessmen should charge only fair price for the goods and services supplied

Q) Corporate Social Responsibility(CSR)

Among the organizational researchers who have tried from time to time to identify and describe the various forms of CSR, probably the most established and accepted model of CSR which addresses the forms of CSR is the one called ‘Four-Part Model of Corporate Social Responsibility’ as proposed by Archie Carroll and subsequently refined later by Carroll and Buchholtz. This model is depicted in the following Figure 38.1.

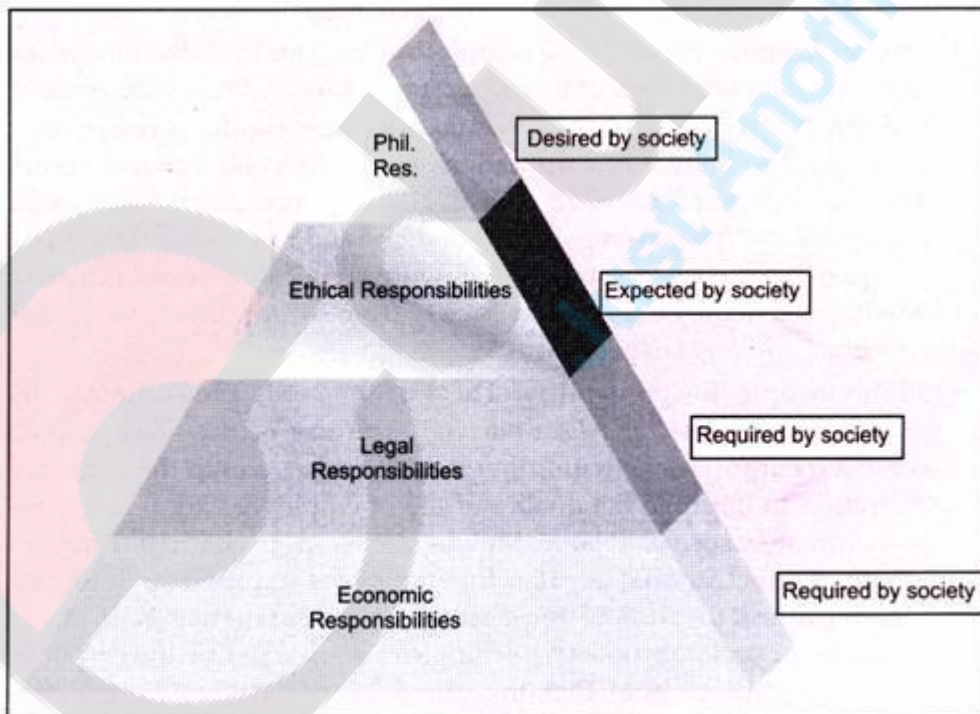


Figure 38.1: Carroll's Four-Part Model of Corporate Social Responsibility

According to Carroll, CSR is a multi-layer concept consisting of four inter-related aspects of responsibilities, namely, economic, legal, ethical, and philanthropic. He presents these different responsibilities as consecutive layers within a pyramid.

Hence, he offers the definition of CSR in these words: “Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.”

Let us discuss, in brief, each of these four responsibilities in turn.

i. Economic Responsibility:

A corporation has to meet its economic responsibilities in terms of reasonable return to investors, fair compensation to employees, goods at fair prices to customers, etc. Thus, meeting economic responsibility is the first-layer of responsibility and also the basis for the subsequent responsibilities. The fact remains that meeting economic responsibility is must for all corporations to survive in the time.

ii. Legal Responsibility:

The legal responsibility of business corporations demands that businesses abide by the law of land and play by the rule of the game. Laws are the codification of do's and don'ts do's in the society.

Abiding by laws is the prerequisite for any corporation to be socially responsible.

Corporate history is replete with instances where violation of laws disallowed corporations to run any longer. Enron, Union Carbide, Global Trust Bank, etc. are some of such illustrative corporate cases of social rejection and boycott.

iii. Ethical Responsibility:

These responsibilities refer to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social well being is called ethical.

Hence, corporations have an ethical responsibility to do, even going beyond law and rule and regulations, what proves good for the society. In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.

iv. Philanthropic Responsibility:

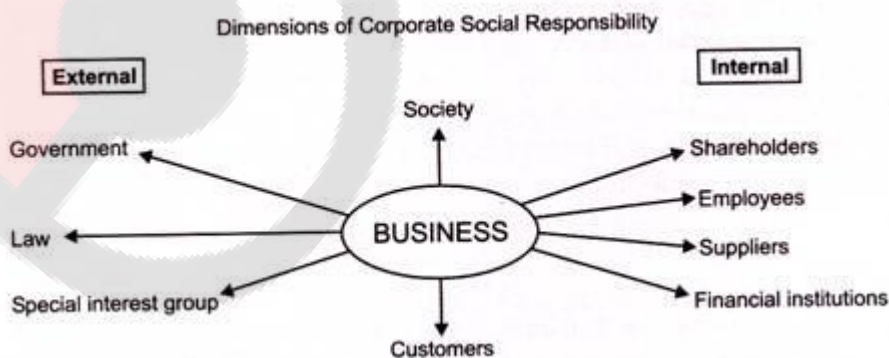
The Greek word ‘philanthropy’ means literally ‘the love of the fellow human.’ The use of this idea in business context incorporates activities that are, of course, within the corporation’s discretion to improve the quality of life of employees, local communities, and ultimately society at large.

Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations. It is important to note that the philanthropic activities are desires of corporations, not expected by the society.

Q) Dimensions of CSR:

The facets and dimensions of corporate social responsibility include the obligations a business has to its interest groups also called ‘stakeholders.’ The stakeholders in a business include shareholders / owners, consumers, employees, government, society, etc.

These are depicted in the following diagram:



Shareholders:

It is the primary responsibility of every business to see that the owners or shareholders get a fair rate of dividend or fair return on capital invested. This is a legitimate expectation of owners from business. Naturally the expectations have to be reasonable and consistent with the risks associated with the investment. Owners also expect economic and political security of the capital invested. If such security is not ensured, the inevitable consequence is withdrawal of capital and search for alternative channels other than business.

Employees:

As regards responsibility towards employees, the major issues governing the employer-employee relationship pertain to wages and salaries, superior-subordinate relations and employee welfare. It is the responsibility of management to provide for fair wages to workers based on the principle of adequacy, equity and human dignity.

Maintaining a harmonious relationship between superiors and subordinates and providing for welfare amenities for employees are also the responsibilities of management. There are specific laws in India governing factory employment under which provision of satisfactory working conditions for safety, health and hygiene, medical facilities, canteen, leave and retirement benefits are obligations on the part of employer.

There are other laws as well providing for the security of workers against the contingencies of sickness, maternity, employment injury and death, provident fund and pension for employees.

However, employee welfare cannot be viewed within the narrow limits of legal requirement. Employee welfare is best secured if the management accepts the obligation to secure and maintain a contented work force, and the employees

have the opportunity of developing their potential abilities through training and education.

Consumer interests are generally expected to be taken care of in a competitive market through forces of demand and supply. However, perfect competition does not actually prevail in all product markets. Consumers are also victims of unfair trade practices and unethical conduct of business. Consumer protection has, thus, been sought through legislation, and non-government organizations (NGOs) have enlarged their activities for upholding consumer interests.

These compulsions are avoidable if management assumes the responsibility of satisfying consumer needs and desists from hoarding, profiteering, creating artificial scarcity, as also false, misleading and exaggerated advertisements. Besides, it would be in the long-run interest of business if goods of appropriate standard and quality are available to consumers in adequate quantities and at reasonable prices.

Government:**Social responsibility of business towards government requires that:**

- (i) the business will conduct its affairs as a law-abiding unit, and pay all taxes and other dues honestly,
- (ii) management will desist from corrupting public servants or the democratic process for selfish ends, and no attempt will be made to secure political support by money or patronage.

Community:

Arising out of their social responsibility towards the community and public at large, businessmen are expected to maintain a balance between the needs of business and the requirements of society. In general, business should be so managed as to make the public good become the private good of the enterprise

rather than the old doctrine that “what is good for the business is good for the society”.

The social responsibility of business firms should be reflected in their policies with respect to environmental protection, pollution control, conservation of natural resources, rural development, setting up industrial units in the backward regions, employment of the socially handicapped and weaker sections of the community, and providing relief to victims of natural calamities.

