



ELEVENTH EDITION

Management

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CHAPTER 5 | Managing Social Responsibility *and* Ethics

LEARNING OUTCOMES

- **Discuss** what it means to be socially responsible and what factors influence that decision
- **Explain** green management and how organizations can go green
- **Discuss** the factors that lead to ethical and unethical behavior
- **Describe** management's role in encouraging ethical behavior
- **Discuss** current social responsibility and ethics issues

From Obligation to Responsiveness to Responsibility

- **Social Obligation** - the obligation of a business to meet its economic and legal responsibilities and nothing more.
- **Social Responsiveness** - when a firm engages in social actions in response to some popular social need.
- **Social Responsibility** - a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

The Classical View

- Management's only social responsibility is to maximize profits (create a financial return) by operating the business in the best interests of the stockholders (owners of the corporation).
- Expending the firm's resources on doing "social good" unjustifiably increases costs that lower profits to the owners and raises prices to consumers.

The Socioeconomic View

- Management's social responsibility goes beyond making profits to include protecting and improving society's welfare.
- Corporations are not independent entities responsible only to stockholders.
- Firms have a moral responsibility to larger society to become involved in social, legal, and political issues.
- "To do the right thing"

Exhibit 5-1: Arguments For and Against Social Responsibility

For	Against
Public expectations Public opinion now supports businesses pursuing economic and social goals.	Violation of profit maximization Business is being socially responsible only when it pursues its economic interests.
Long-run profits Socially responsible companies tend to have more secure long-run profits.	Dilution of purpose Pursuing social goals dilutes business's primary purpose—economic productivity.
Ethical obligation Businesses should be socially responsible because responsible actions are the right thing to do.	Costs Many socially responsible actions do not cover their costs and someone must pay those costs.
Public image Businesses can create a favorable public image by pursuing social goals.	Too much power Businesses have a lot of power already and if they pursue social goals they will have even more.
Better environment Business involvement can help solve difficult social problems.	Lack of skills Business leaders lack the necessary skills to address social issues.
Discouragement of further governmental regulation By becoming socially responsible, businesses can expect less government regulation.	Lack of accountability There are no direct lines of accountability for social actions.
Balance of responsibility and power Businesses have a lot of power and an equally large amount of responsibility is needed to balance against that power.	
Stockholder interests Social responsibility will improve a business's stock price in the long run.	
Possession of resources Businesses have the resources to support public and charitable projects that need assistance.	
Superiority of prevention over cures Businesses should address social problems before they become serious and costly to correct.	

Green Management and Sustainability

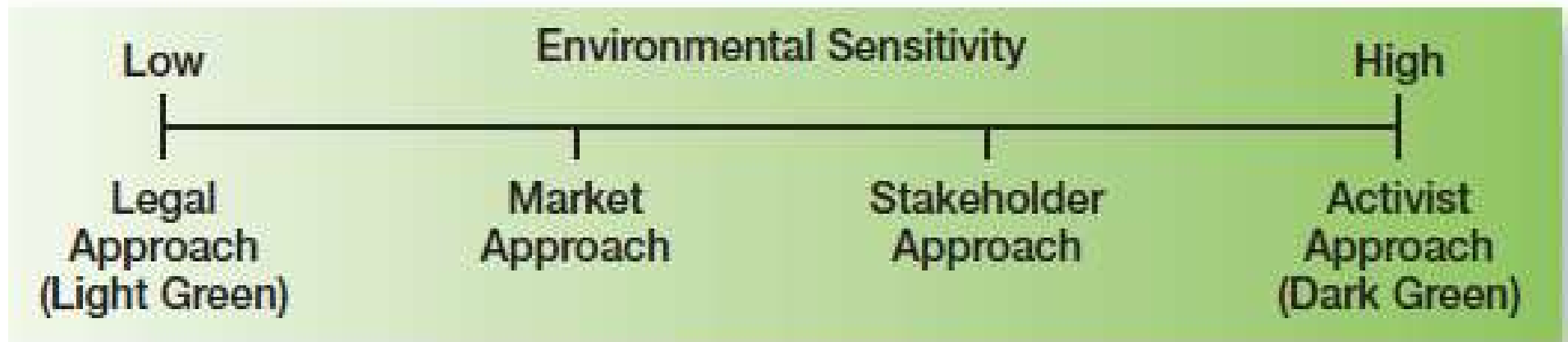
- **Social Screening** - applying social criteria (screens) to investment decisions.
- **Green Management** - managers consider the impact of their organization on the natural environment.



How Organizations Go Green

- **Legal (or Light Green) Approach** - firms simply do what is legally required by obeying laws, rules, and regulations willingly and without legal challenge.
- **Market Approach** - firms respond to the preferences of their customers for environmentally friendly products.
- **Stakeholder Approach** - firms work to meet the environmental demands of multiple stakeholders—employees, suppliers, and the community.
- **Activist Approach** - firms look for ways to respect and preserve the environment and be actively socially responsible.

Exhibit 5-2: Green Approaches



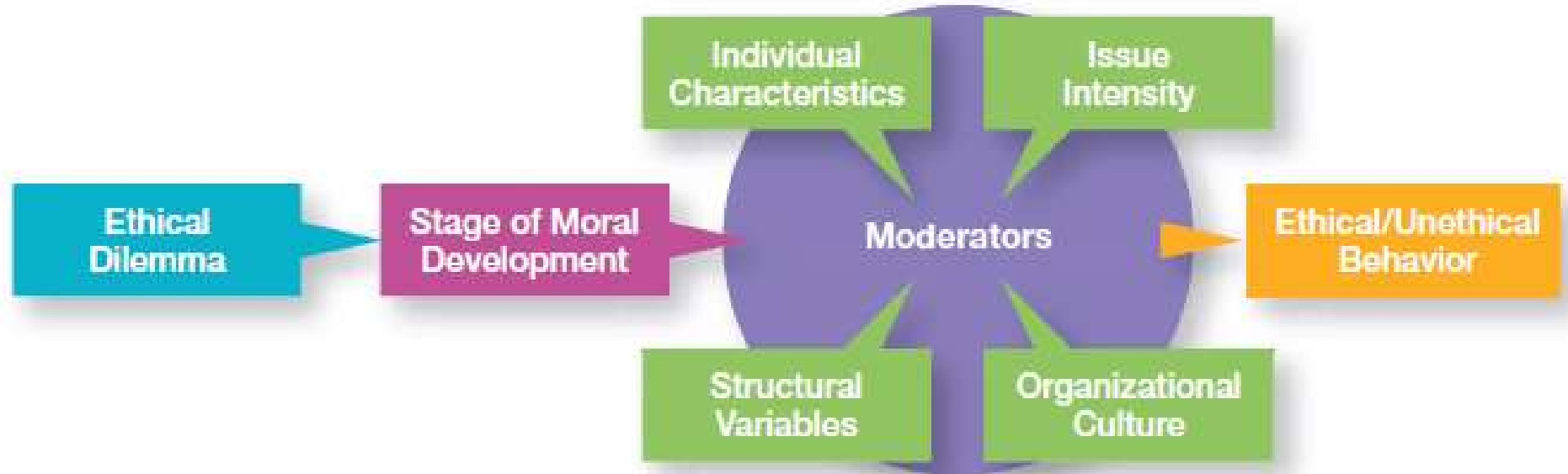
Managers and Ethical Behavior

- **Ethics** - principles, values, and beliefs that define right and wrong behavior.
- **Values** - basic convictions about what is right and wrong.

Personality Variables

- **Ego Strength** - a personality measure of the strength of a person's convictions.
- **Locus of Control** - a personality attribute that measures the degree to which people believe they control their own fate.

Exhibit 5-3: Factors that Determine Ethical and Unethical Behavior



Moral Development

- A measure of independence from outside influences
- Levels of Individual Moral Development
 - Preconventional level
 - Conventional level
 - Principled level
- Stage of moral development interact with:
 - Individual characteristics
 - The organization's structural design
 - The organization's culture
 - The intensity of the ethical issue

Exhibit 5-4: Stages of Moral Development

Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law 5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed 3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest 1. Sticking to rules to avoid physical punishment

Structural Variables

- Organizational characteristics and mechanisms that guide and influence individual ethics
- Examples include:
 - Performance appraisal systems
 - Reward allocation systems
 - Behaviors (ethical) of managers

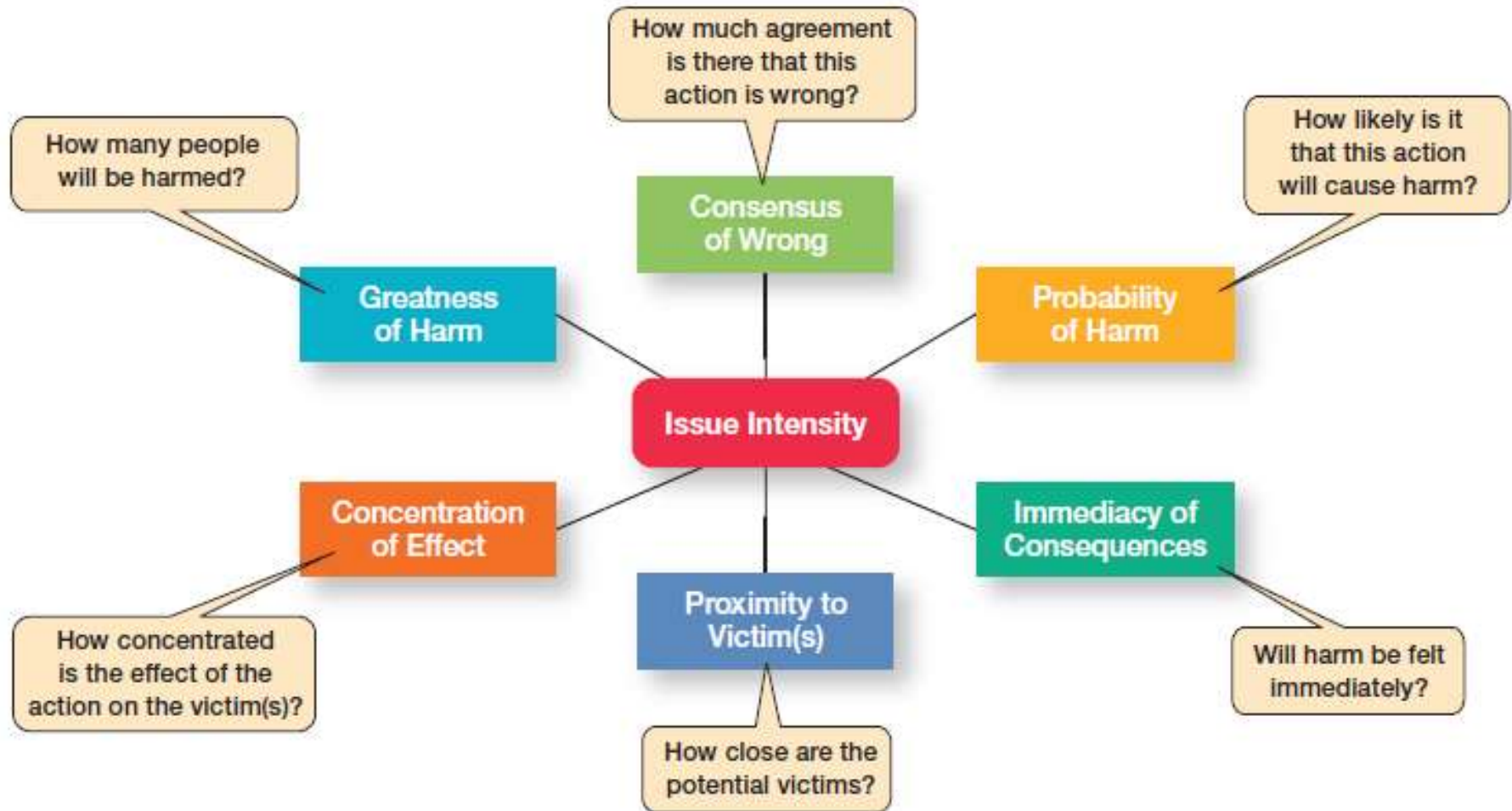
Organization's Culture

- **Values-Based Management** - an approach to managing in which managers establish and uphold an organization's shared values.
- The Purposes of Shared Values
 - Guiding managerial decisions
 - Shaping employee behavior
 - Influencing the direction of marketing efforts
 - Building team spirit
- The Bottom Line on Shared Corporate Values
 - An organization's values are reflected in the decisions and actions of its employees

Issue Intensity

- Characteristics determine issue intensity or how important an ethical issue is to an individual: greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victim(s), and concentration of effect.

Exhibit 5-5: Ethical Intensity



Ethics in an International Context

- Ethical standards are not universal
 - Social and cultural differences determine acceptable behaviors.
- Foreign Corrupt Practices Act
 - It is illegal to corrupt a foreign official, yet “token” payments to officials are permissible when doing so is an accepted practice in that country.

Exhibit 5-6: Ten Principles of the UN Global Compact

Human Rights

- Principle 1: Support and respect the protection of international human rights within their sphere of influence.
- Principle 2: Make sure business corporations are not complicit in human rights abuses.

Labor Standards

- Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.
- Principle 4: The elimination of all forms of forced and compulsory labor.
- Principle 5: The effective abolition of child labor.
- Principle 6: The elimination of discrimination in respect to employment and occupation.

Environment

- Principle 7: Support a precautionary approach to environmental challenges.
- Principle 8: Undertake initiatives to promote greater environmental responsibility.
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Encouraging Ethical Behavior

1. Hire individuals with high ethical standards.
2. Establish codes of ethics and decision rules.
3. Lead by example.
4. Set realistic job goals and include ethics in performance appraisals.
5. Provide ethics training.
6. Conduct independent social audits.
7. Provide support for individuals facing ethical dilemmas.

Code of Ethics

- **Code of Ethics** - a formal statement of an organization's primary values and the ethical rules it expects its employees to follow.

Exhibit 5-7: Code of Ethics

Cluster 1. Be a Dependable Organizational Citizen

1. Comply with safety, health, and security regulations.
2. Demonstrate courtesy, respect, honesty, and fairness.
3. Illegal drugs and alcohol at work are prohibited.
4. Manage personal finances well.
5. Exhibit good attendance and punctuality.
6. Follow directives of supervisors.
7. Do not use abusive language.
8. Dress in business attire.
9. Firearms at work are prohibited.

Exhibit 5-7: Code of Ethics (cont.)

Cluster 2. Do Not Do Anything Unlawful or Improper That Will Harm the Organization

1. Conduct business in compliance with all laws.
2. Payments for unlawful purposes are prohibited.
3. Bribes are prohibited.
4. Avoid outside activities that impair duties.
5. Maintain confidentiality of records.
6. Comply with all antitrust and trade regulations.
7. Comply with all accounting rules and controls.
8. Do not use company property for personal benefit.
9. Employees are personally accountable for company funds.
10. Do not propagate false or misleading information.
11. Make decisions without regard for personal gain.

Cluster 3. Be Good to Customers

1. Convey true claims in product advertisements.
2. Perform assigned duties to the best of your ability.
3. Provide products and services of the highest quality.

The Value of Ethics Training

- Can make a difference in ethical behaviors
- Increases employee awareness of ethical issues in business decisions
- Clarifies and reinforces the organization's standards of conduct
- Helps employees become more confident that they will have the organization's support when taking unpopular but ethically correct stances

Exhibit 5-8: A Process for Addressing Ethical Dilemmas

Step 1: What is the **ethical dilemma**?

Step 2: Who are the **affected stakeholders**?

Step 3: What **personal, organizational, and external factors** are important in this decision?

Step 4: What are possible **alternatives**?

Step 5: What is my **decision** and how will I act on it?

Promoting Positive Social Change


- **Whistle-Blower** - individuals who raise ethical concerns or issues to others.
- **Social Entrepreneur** - an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches.

Exhibit 5-9: Becoming an Ethical Leader

- Be a good role model by being ethical and honest.
 - Tell the truth always.
 - Don't hide or manipulate information.
 - Be willing to admit your failures.
- Share your personal values by regularly communicating them to employees.
- Stress the organization's or team's important shared values.
- Use the reward system to hold everyone accountable to the values.

Terms to Know

- Social obligation
- Classical view
- Socioeconomic view
- Social responsiveness
- Social responsibility
- Social screening
- Green management
- Ethics
- Values
- Ego strength
- Locus of control
- Values-based management
- Code of ethics
- Whistle-blower
- Social entrepreneur



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