

# What Is Social Responsibility?

- The Classical View

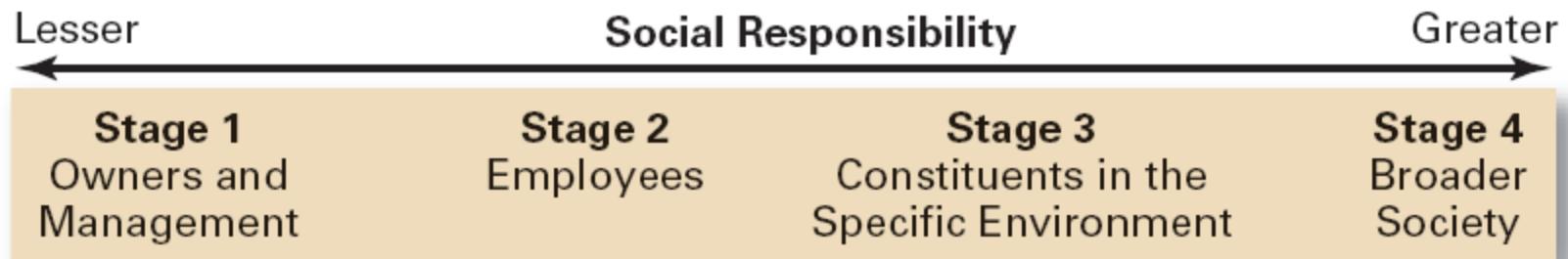
- Management's only social responsibility is to maximize profits (create a financial return) by operating the business in the best interests of the stockholders (owners of the corporation).
- Expending the firm's resources on doing "social good" unjustifiably increases costs that lower profits to the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

# What Is Social Responsibility? (cont'd)

- 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 To Whom is Management Responsible?



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## **Exhibit 5–2 Arguments For and Against Social Responsibility**

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- **For**

- Public expectations
- Long-run profits
- Ethical obligation
- Public image
- Better environment
- Discouragement of further governmental regulation
- Balance of responsibility and power
- Stockholder interests
- Possession of resources
- Superiority of prevention over cure

- **Against**

- Violation of profit maximization
- Dilution of purpose
- Costs
- Too much power
- Lack of skills
- Lack of accountability

# From Obligation to Responsiveness to Responsibility

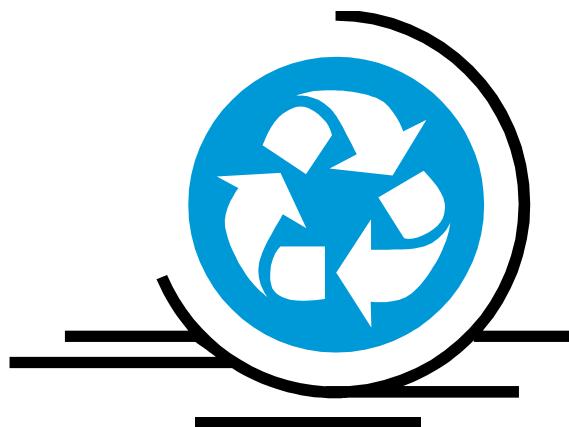
- Social Obligation
  - The obligation of a business to meet its economic and legal responsibilities and nothing more.
- Social Responsiveness
  - When a firm engages in social actions in response to some popular social need.
- Social Responsibility
  - A business's intention, beyond its legal and economic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

# Does Social Responsibility Pay?

- Studies appear to show a positive relationship between social involvement and the economic performance of firms.
  - Difficulties in defining and measuring “social responsibility” and “economic performance raise issues of validity and causation in the studies.
  - Mutual funds using social screening in investment decisions slightly outperformed other mutual funds.
- A general conclusion is that a firm’s social actions do not harm its long-term performance.

# The Greening of Management

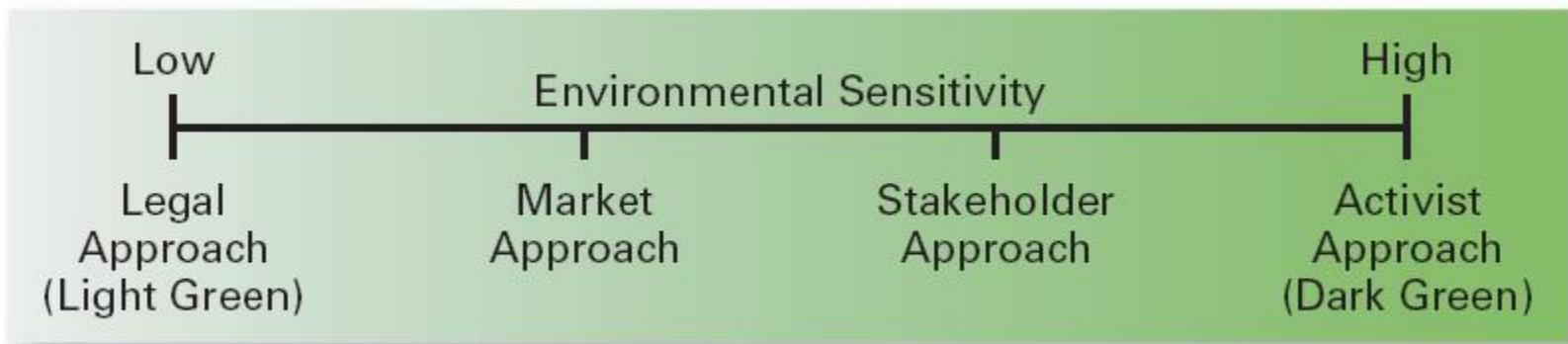
- The recognition of the close link between an organization's decision and activities and its impact on the natural environment.
  - Global environmental problems facing managers:
    - ❖ Air, water, and soil pollution from toxic wastes
    - ❖ Global warming from greenhouse gas emissions
    - ❖ Natural resource depletion



# 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 environment and be actively socially responsible.

## Exhibit 5–5 Approaches to Being Green

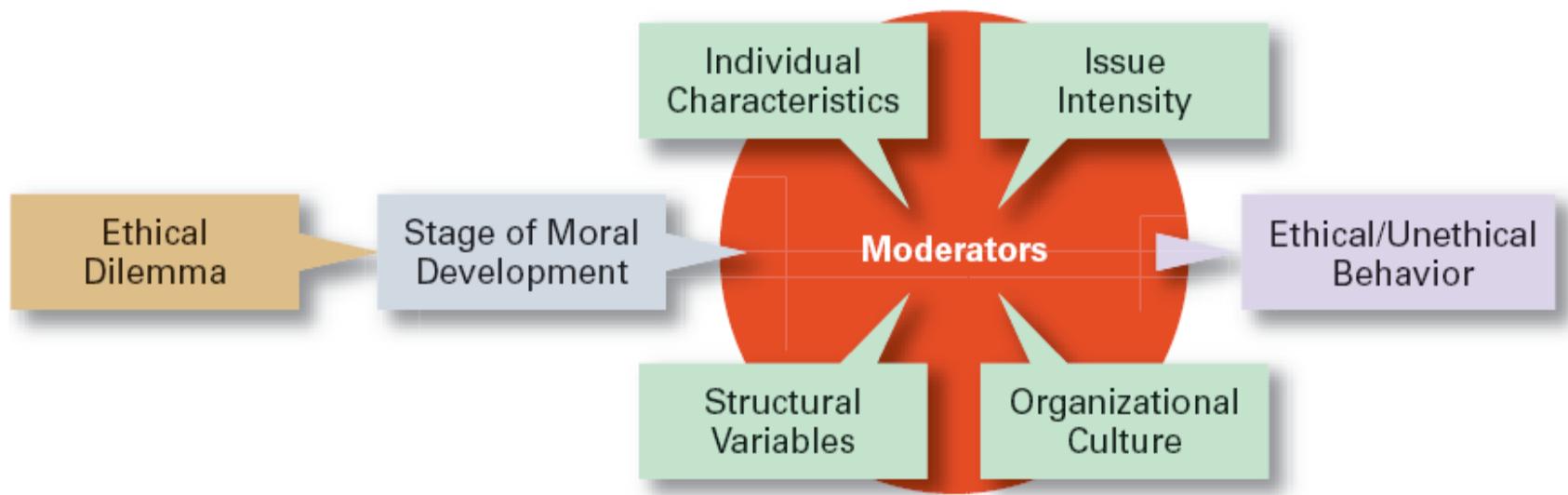


Source: Based on R.E. Freeman, J. Pierce, and R. Dodd. *Shades of Green: Business Ethics and the Environment* (New York: Oxford University Press, 1995).

# Managerial Ethics

- **Ethics Defined**
  - Principles, values, and beliefs that define what is right and wrong behavior.

## Exhibit 5–8 Factors That Affect Ethical and Unethical Behavior



# Factors That Affect Employee Ethics

- Moral Development

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

## Exhibit 5–9 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

Source: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.). *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

# Factors That Affect Employee Ethics (cont'd)

- Moral Development
  - Research Conclusions:
    - ❖ People proceed through the stages of moral development sequentially.
    - ❖ There is no guarantee of continued moral development.
    - ❖ Most adults are in Stage 4 (“good corporate citizen”).

# Individual Characteristics Affecting Ethical Behaviors

- Values
  - Basic convictions about what is right or wrong on a broad range of issues

# Individual Characteristics

- Personality Variables

- Ego strength

- ❖ A personality measure of the strength of a person's convictions

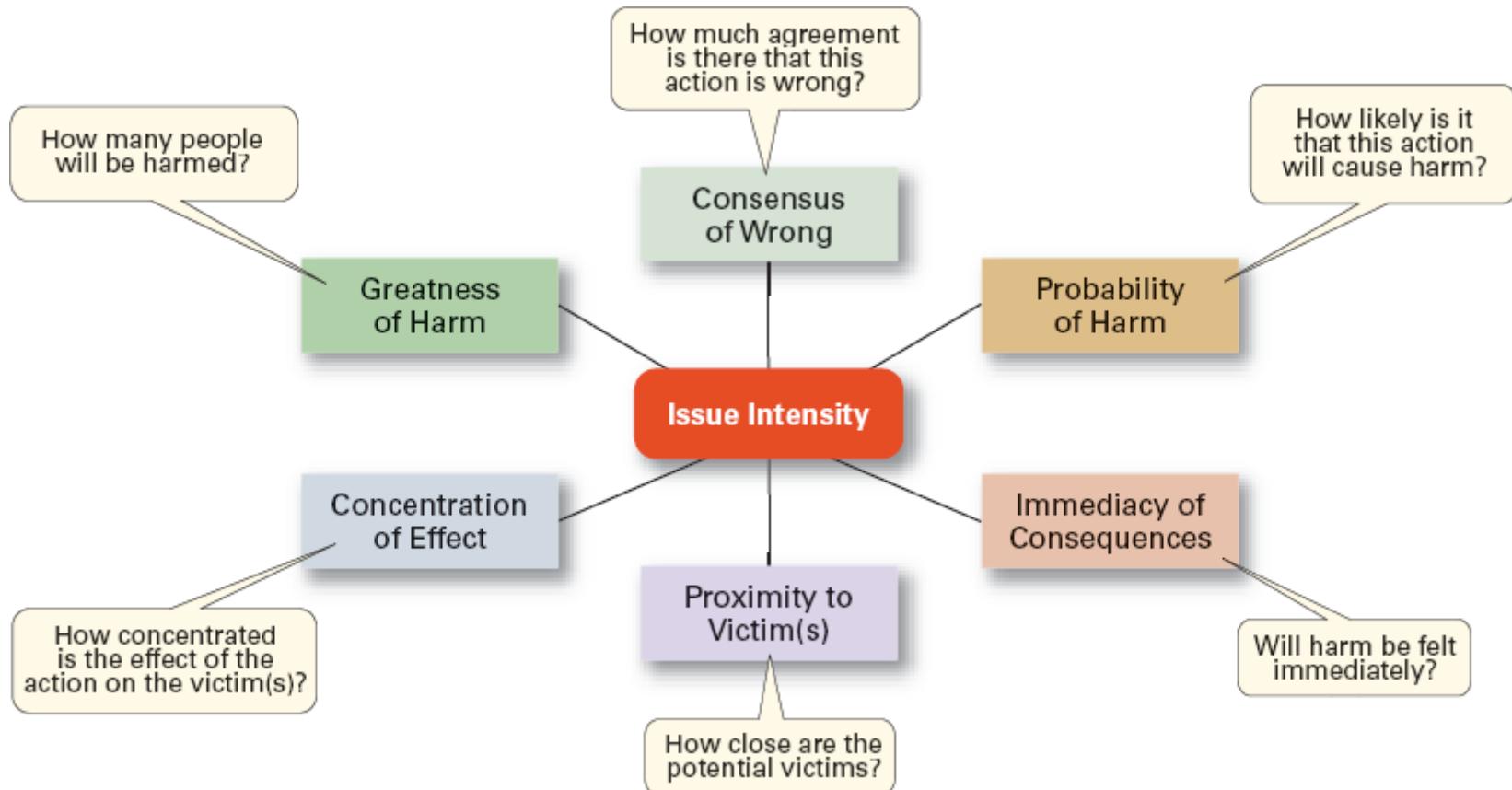
- Locus of Control

- ❖ A personality attribute that measures the degree to which people believe they control their own life.
    - ❖ **Internal locus:** the belief that you control your destiny.
    - ❖ **External locus:** the belief that what happens to you is due to luck or chance.

# Other Variables

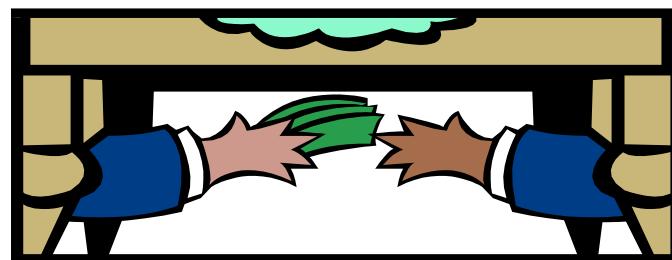
- Structural Variables
  - Organizational characteristics and mechanisms that guide and influence individual ethics:
    - ❖ Performance appraisal systems
    - ❖ Reward allocation systems
    - ❖ Behaviors (ethical) of managers
- An Organization's Culture
- Intensity of the Ethical Issue

## Exhibit 5–10 Determinants of Issue Intensity



# Ethics in an International Context

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



# How Managers Can Improve Ethical Behavior in An Organization

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.

# 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.

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## **Exhibit 5–13 Twelve Questions for Examining the Ethics of a Business Decision**

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1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make the decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your chief executive officer, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

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# Effective Use of a Code of Ethics

- Develop a code of ethics as a guide in handling ethical dilemmas in decision making.
- Communicate the code regularly to all employees.
- Have all levels of management continually reaffirm the importance of the ethics code and the organization's commitment to the code.
- Publicly reprimand and consistently discipline those who break the code.

# Ethical Leadership

- Managers must provide a *good role model* by:
  - Being ethical and honest at all times.
  - Telling the truth; don't hide or manipulate information.
  - Admitting failure and not trying to cover it up.
  - Communicating shared ethical values to employees through symbols, stories, and slogans.
  - Rewarding employees who behave ethically and punish those who do not.
  - Protecting employees (**whistleblowers**) who bring to light unethical behaviors or raise ethical issues.

# Managing Ethical Lapses and Social Irresponsibility

- Provide ethical leadership
- Protect employees who raise ethical issues (whistle-blowers)

# Terms to Know

- classical view
- socioeconomic view
- social obligation
- social responsiveness
- social responsibility
- social screening
- greening of management
- values-based management
- ethics
- values
- ego strength
- locus of control
- code of ethics
- whistle-blower
- social entrepreneur
- social impact management