BUS108
W5

Chapter 6

Managing Responsibly and Ethically

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Learning Outcomes:

1. Discuss what it means to be *socially responsible* and what factors influence that decision.
2. Describe how managing responsibly contributes to *organizational performance*.
3. Explain green management and how organizations can *go green*.
4. Discuss the *factors* that lead to *ethical* and *unethical* behaviour.
5. Describe *management's role* in encouraging ethical behaviour.
6. Discuss current *social* responsibility and ethics issues.

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What Is Meant by Socially Responsible Management? (1 of 9)

Are these companies being socially responsible?

– Businesses facing a drastically changed industry environment offer employees early retirement and buyout packages.
– Large global corporations lower their costs by outsourcing to countries where human rights are not a high priority and justify it by saying they're bringing in jobs and helping strengthen the local economies

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What Is Meant by Socially Responsible Management? (2 of 9)

The concept of Social Responsibility has been interpreted as…..

- – profit making only
- – going beyond profit making
- – any discretionary corporate activity intended to further social welfare
- – improving social or environmental conditions

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What Is Meant by Socially Responsible Management? (3 of 9)

The Classical View: Social Obligation

- – ***Maximize profits*** for the benefit of the stockholders
- – Doing "social good" ***unjustifiably*** increases costs

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What Is Meant by Socially Responsible Management? (4 of 9)

Social Obligation:

- – **Social obligation** is a firm's engaging in social actions because of its obligation to meet certain economic and legal responsibilities.

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What Is Meant by Socially Responsible Management? (5 of 9)

The Socio-Economic View: Social Responsiveness and Social Responsibility

- Management should also protect and improve *society's welfare*.
- Corporations are responsible to *more* then stockholders.
- Firms have a *moral responsibility* to larger society "to do the right thing".

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What Is Meant by Socially Responsible Management? (6 of 9)

Social Responsiveness:

- *Social responsiveness* A firm's engaging in social actions in response to some popular **social need**.
- *Social need* A need of a segment of society caused by factors such as physical and mental disabilities; language barriers; and cultural, social, or geographical isolation.

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What Is Meant by Socially Responsible Management? (7 of 9)

Social Responsiveness cont'd:

- Managers in these companies are guided by social norms and values and make practical, market-oriented decisions about their actions.

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What Is Meant by Socially Responsible Management? (8 of 9)

Social Responsibility:

- A *socially responsible* organization views things differently.
- It goes beyond what it's obligated to do or chooses to do because of some **popular social need** and does what it can to help improve society because it's the right thing to do.

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Exhibit 6-1 Social Responsibility vs. Social Responsiveness

	Social Responsibility	Social Responsiveness
Major consideration	Ethical	Pragmatic
Focus	Ends	Means
Emphasis	Obligation	Responses
Decision framework	Long term	Medium and short terms

Source: Adapted from S. L. Wartick and P. L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review,* October 1985, p. 766.

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What Is Meant by Socially Responsible Management? (9 of 9)

The Evolution of Socially Responsible Management:

- Those supporting the socio-economic view would respond that managers should be responsible to any group affected by the organization's decisions and actions.
- Classicists would say that shareholders, or owners, are the only legitimate concern.

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Exhibit 6-2 To Whom Is Management Responsible?

Exhibit 6-2

To Whom Is Management Responsible?

	Corporate Social Responsibility		
Lesser			Greater
Stage 1 Owners and Management	Stage 2 Employees	Stage 3 Constituents in the Specific Environment	Stage 4 Broader Society

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Corporate Social Responsibility and Economic Performance (1 of 4)

- Many studies have shown *positive relationship* between social involvement and economic performance.
- However, cannot generalize findings.
- A recent analysis of several studies concluded that **managers can afford to be (and should be) socially responsible.**

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Corporate Social Responsibility and Economic Performance (2 of 4)

Socially Responsible Investing (SRI):

SRI's are funds which provide a way for individual investors to support socially responsible companies.

These funds generally use some type of **social screening**; that is, applying **social** and **environmental** criteria to investment decisions.

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Corporate Social Responsibility and Economic Performance (3 of 4)

Social Screening

Applying social criteria (screens) to investment decisions.

Corporate Social Responsibility and Economic Performance (4 of 4)

Green Management

Managers consider the impact of their organization on the natural environment

Sustainable Management Practices (1 of 7)

The recognition by business of the close link between its decisions and activities and their impact on the *natural environment.*

Sustainable Management Practices (2 of 7)

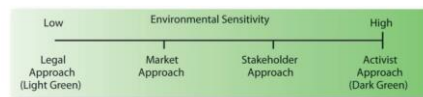**How Organizations Manage Sustainability**

- *legal approach*
- *market approach*
- *stakeholder approach*
- *activist approach*

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Exhibit 6-3 Approaches to Sustainable Management

Exhibit 6-3

Approaches to Sustainable Management

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).

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Sustainable Management Practices (3 of 7)

Legal Approach:

Organizations obey laws, rules, and regulations willingly and without legal challenge, but that is the extent of their implementation of sustainable management practices.

- This approach is a good illustration of ***social obligation*** these organizations simply follow the legal requirements to prevent pollution and protect the environment

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Sustainable Management Practices (4 of 7)
Market Approach:

As an organization becomes more sensitive to environmental issues, it may An organization which is more sensitive to environmental issues, responding to the environmental preferences of their customers.

– *Whatever customers demand in terms of environmentally friendly products will be what the organization provides.*

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Sustainable Management Practices (5 of 7)
Stakeholder Approach:

Organizations that follow the stakeholder approach work to meet the environmental demands of multiple stakeholders such as employees, suppliers, and the community.

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Sustainable Management Practices (6 of 7)
Activist Approach:

An organization which exhibits the highest degree of environmental sensitivity pursues an activist approach to sustainable management.

– These organizations look for ways to respect and preserve the earth and its natural resources.

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Sustainable Management Practices (7 of 7)

Evaluating Sustainable Management

As organizations implement sustainable management practices, we find more and more of them issuing detailed reports on their environmental performance via:
- Global Reporting Initiative
- Adopting ISO standards
- Inclusion in the list of the Global 100 Most Sustainable Corporations in the World

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Values-Based Management (1 of 3)

Values-based management:

Managers establish and uphold an organization's shared values.

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Exhibit 6-4 Purposes of Shared Values

Exhibit 6-4
Purposes of Shared Values

Shared Organizational Values
- Guide Managers' Decisions and Actions
- Shape Employee Behaviour
- Influence Marketing Efforts
- Build Team Spirit

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Values-Based Management (2 of 3)

Purposes of Shared Values:

- Guiding managerial decisions
- Shaping employee behaviour
- Influencing the direction of marketing efforts
- Building team spirit

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Values-Based Management (3 of 3)

The Bottom Line on Shared Corporate Values:

An organization's values are reflected in the decisions and actions of its employees.
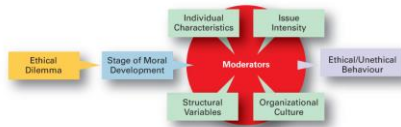
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Managerial Ethics (1 of 26)

Ethics Defined:

The rules and principles that define right and wrong behaviour.

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Exhibit 6-5 Factors That Affect Ethical and Unethical Behaviour

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Managerial Ethics (2 of 26)

- Stages of moral development
- Individual characteristics
- Structural variables
- Organizational culture
- Issue intensity

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Managerial Ethics (3 of 26)

Levels of Individual Moral Development:
– Pre-conventional level
– Conventional level
– Principled level

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Exhibit 6-6 Stages of Moral Development

Exhibit 6-6

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 Moral Development and Behavior: Theory, Research, and Social Issues, ed. T. Lickona (New York, NY: Holt, Rinehart & Winston, 1976), pp. 34–35.

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Managerial Ethics (4 of 26)

Stage of moral development interacts with:

– Individual characteristics
– The organization's structural design
– The organization's culture
– The intensity of the ethical issue

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Managerial Ethics (5 of 26)

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")

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Managerial Ethics (6 of 26)

Values:

> Basic convictions about what is right or wrong on a broad range of issues.

Ego strength:

> A personality measure of the strength of a person's convictions.

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Managerial Ethics (7 of 26)

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.

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Managerial Ethics (8 of 26)

Organizational characteristics and mechanisms that guide and influence individual ethics:

- – Performance appraisal systems
- – Reward allocation systems
- – Behaviours (ethical) of managers
- – An organization's culture
- – Intensity of the ethical issue

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Managerial Ethics (9 of 26)

Good structural design minimizes ambiguity and
uncertainty and fosters ethical behaviour

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Managerial Ethics (10 of 26)

Cultures high in risk tolerance, control, and conflict
tolerance are most likely to encourage *high ethical
standards*

Weak cultures have less ability to encourage high
ethical standards

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Managerial Ethics (11 of 26)

There are six characteristics that determine issue
intensity (Exhibit 6-7).
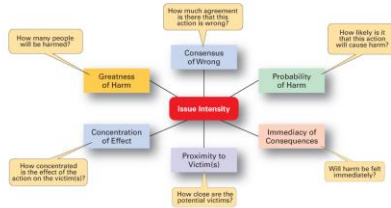- Greatness of harm
    - Consensus of wrong
        - Probability of harm
            - Immediacy of consequences
                - Proximity to victim
                    - Concentration of effect

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Exhibit 6-7 Determinants of Issue Intensity

Exhibit 6-7
Determinants of Issue Intensity

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Managerial Ethics (12 of 26)

Ethical Standards in an International Context

– Social and cultural differences determine *acceptable behaviours*

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Managerial Ethics (13 of 26)

Exhibit 6-8 The 10 Principles of the United Nations Global Compact

Human Rights
Principle 1: Businesses should support and respect the protection of international human rights within their sphere of influence; and
Principle 2: make sure that they are not complicit in human rights abuses.
Labour Standards
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
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.

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Managerial Ethics (14 of 26)

Encouraging Ethical Behaviour

- 1. Hire individuals with *high ethical standards*.
- *2. Establish codes* of ethics and decision rules.
- 3. Lead by *example*.
- 4. Delineate job goals and *performance appraisal mechanisms*.

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Managerial Ethics (15 of 26)

Exhibit 6-9 Codes 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.

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.

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Managerial Ethics (16 of 26)

[**Exhibit 6-9** Continued]

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.

Source: F. R. David, "An Empirical Study of Codes of Business Ethics: A Strategic Perspective," paper presented at the 48th Annual Academy of Management Conference, Anaheim, California, August 1988. Used with permission of Fred David.

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Managerial Ethics (17 of 26)

- 5. Provide *ethics training.*
- 6. Conduct independent *social audits.*
- 7. Provide *support* for individuals facing ethical dilemmas.

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Managerial Ethics (18 of 26)

Employee Selection

Given that individuals are at different stages of moral development and possess different personal value systems and personalities, the selection process—interviews, tests, background checks, and so forth—could be used to eliminate ethically questionable applicants.

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Managerial Ethics (19 of 26)

Code of Ethics:

> – A formal statement of an organization's primary values and the ethical rules it expects its employees to follow..

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Managerial Ethics (20 of 26)

Suggested components of a code of ethics.

1. Organizational leaders should model appropriate behaviour and reward those who act ethically.
2. All managers should continually reaffirm the importance of the ethics code and consistently discipline those who break it.
3. The organization's stakeholders (employees, customers, and so forth) should be considered as an ethics code is developed or improved.
4. Managers should communicate and reinforce the ethics code regularly.
5. Managers should use the five-step process to guide employees when faced with ethical dilemmas.

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Managerial Ethics (21 of 26)

Ethical Leadership

Doing business ethically requires a commitment from top managers.

It's the top managers who uphold the shared values and set the cultural tone. They are role models in terms of both words and actions, although what they *do* is far more important than what they *say.*

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Managerial Ethics (22 of 26)

Job Goals and Performance

Under the stress of unrealistic job goals, otherwise ethical employees may feel they have no choice but to do whatever is necessary to meet those goals.

To encourage ethical behaviour, both ends *and* means should be evaluated.

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Exhibit 6-10 A Process for Addressing Ethical Dilemmas

Step 1:	What is the ethical dilemma?
Step 2:	Who are the affected stakeholders?
Step 3:	Which 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?

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Managerial Ethics (23 of 26)

Ethics Training

- Training can make a difference in ethical behaviours.
- Training increases employee awareness of ethical issues in business decisions.

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- Training clarifies and reinforces the standards of conduct.
- Employees are more confident of support when taking unpopular but ethically correct stances.

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Managerial Ethics (25 of 26)

Independent Social Audits

The fear of being caught can be an important deterrent to unethical behaviour. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase that likelihood

Managerial Ethics (26 of 26)

Formal Protective Mechanisms

Provide formal mechanisms to protect employees who face ethical dilemmas so that they can do what is right without fear of reprimand.

Whistle-blowers - individuals who raise ethical concerns or issues to others inside or outside the organization.