

STRATEGY: Core Concepts and Analytical Approaches  
Arthur A. Thompson, The University of Alabama  
2nd Edition

CHAPTER  
**9** Strategy, Ethics, and Social Responsibility

PowerPoint Presentation by Charlie Cook  
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Chapter 9 Learning Objectives

1. Understand where ethical standards come from and to critically consider whether and why businesses and their personnel should be ethically accountable for their behavior.
2. Become aware of the principal reasons why companies sometimes pursue unethical strategies and why businesspeople sometimes engage in unethical conduct.
3. Learn why unethical business conduct can be very costly for a company's shareholders.
4. Gain a strong understanding of the concepts of corporate social responsibility, corporate citizenship, and environmental sustainability.
5. Become familiar with both the moral case and the business case for socially responsible business behavior.

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Chapter 9 Roadmap

- What Do We Mean by Business Ethics?
- Where Do Ethical Standards Come From—Are They Universal or Dependent on Local Norms?
- The Three Categories of Management Morality
- Drivers of Unethical Strategies and Business Behavior
- Why Should Company Strategies Be Ethical?
- Strategy, Social Responsibility and Corporate Citizenship

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What Duties Do Firms Have Beyond Delivering Value to Customers and Shareholders?

- In the course of trying to craft and execute a strategy that delivers value to both customers and shareholders, it is well-accepted that a company and its personnel will be held accountable for obeying the law and complying with governmental regulations.
- But does a company also have **a duty** to:
  - ▶ Act in an ethical manner and hold all company personnel to high ethical standards?
  - ▶ Be a good corporate citizen and devote some of its resources to improving the well-being of employees, the communities in which it operates, and society as a whole?
  - ▶ **Do more than what is legally required** in trying to protect the environment, conserve natural resources for use by future generations, and ensure its operations do not ultimately endanger the planet?

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What Do We Mean by Business Ethics?

- **Business ethics** is the application of general ethical principles and standards to the actions and decisions of business organizations and the conduct of their personnel
- **Ethical principles in business are not materially different from ethical principles in general**
- **The actions of businesses and businesspeople are judged by society's standards of what is ethically right and wrong, not by a special set of rules that apply to business conduct**
  - ▶ If society deems dishonesty to be unethical and immoral, then dishonest behavior in business is unethical
  - ▶ If society deems bribery unethical, then it is unethical for company personnel to offer payoffs or kickbacks to obtain sales or other favors

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Core Concept

**Business ethics** deals with the application of general ethical principles and standards to the actions and decisions of businesses and the conduct of their personnel.

**Ethical principles in business are not materially different from ethical principles in general.**

Business actions must be judged **in the context of society's standards of what is ethically right and wrong**, not by a special set of rules that apply just to business conduct.

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## Where Do Ethical Standards Come From?

There are three ***schools of thought*** regarding how ethical standards are determined:

Ethical Universalism

Ethical Relativism

Integrative Social Contracts Theory

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## The School of Ethical Universalism

■ According to the ***school of ethical universalism***, the most important concepts of what is right and what is wrong are ***universal*** and transcend most cultures, societies, and religions

- ▶ For instance, being truthful (or not lying or not being deliberately deceitful) strikes a chord of what's right in peoples of all nations
- ▶ The same is true for demonstrating integrity of character, not cheating, and treating people with courtesy and respect
- ▶ In most societies, people concur that it is unethical to knowingly expose workers to toxic chemicals and hazardous materials or to sell products known to be unsafe or harmful to the users or to pillage or degrade the environment

***Such common moral agreement about right and wrong actions and behaviors across multiple cultures and countries gives rise to universal ethical standards that apply to members of all societies, all companies, and all businesspeople worldwide***

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## Core Concept

According to the school of ***ethical universalism***, the most important standards of what's ethical and what's unethical resonate with peoples of most societies regardless of local traditions and cultural norms. Hence, common ethical standards can be used to judge the conduct of personnel at firms operating in a variety of country markets and cultural circumstances.

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## Examples of Universal Ethical Principles or Norms

- Being honest and telling the truth
- Being trustworthy
- Respecting rights of others
- Practicing the Golden Rule
  - ▶ Treating people with dignity and respect
- Exercising due diligence in product safety
- Acting in a manner that does not
  - ▶ Harm others or put them at risk (as concerns safety)
  - ▶ Endanger the environment

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## What Is the Strength of the Ethical Universalism Approach to Establishing Ethical Standards?

- ***Ethical universalism*** draws upon the collective views of multiple societies and cultures to put clear boundaries on what constitutes ethical and unethical business behavior and irrespective of the country or culture in which a firm's personnel are conducting activities.
- When basic moral standards do not vary significantly from country to country, a multinational firm can:
  - ▶ Apply a code of ethics more or less evenly across its worldwide operations
  - ▶ Avoid the slippery slope that comes from having different ethical standards for different company personnel depending on where in the world they are working

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## The School of Ethical Relativism

According to the ***school of ethical relativism***:

- While there are a few universal moral prescriptions—like being truthful and trustworthy—that apply in most every society and business circumstance, there are meaningful variations in what societies generally agree to be fair or unfair, moral or immoral, and ethically right or wrong.
- There is no one universal set of ethical standards but rather multiple sets of ethical standards exist.
- Varying ethical standards are the result of differing religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms across countries and cultures.
- ***What prevails as local morality is an adequate guide to ethical behavior in that locality.***
  - ▶ Ethical relativism mirrors the well-known saying, "When in Rome, do as the Romans do."

***According to the school of ethical relativism, there is no "one-size-fits-all" template for judging the ethical appropriateness of business actions and the behaviors of company personnel.***

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### Core Concept

According to the school of **ethical relativism**, differing religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms across countries and cultures give rise to multiple sets of standards concerning what is ethically right or wrong.

These differing standards mean that whether certain business-related actions or behaviors are ethically right or wrong depends on the prevailing local ethical standards.

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### Ethical Relativism and the Use of Underage Labor

- In India, Bangladesh, Botswana, Sri Lanka, Ghana, Somalia, Turkey, and over 50 other countries, it is customary to view children as potential, even necessary, workers.
  - ▶ In a 2010 report, the International Labor Organization estimated that there were 215 million child laborers aged 5 to 17 and that some 115 million of these were engaged in hazardous work.
- According to ethical relativism, whether the use of underage labor in hazardous or nonhazardous jobs is ethically right or wrong depends on what country one is in.
- While the ethical relativism rule of "When in Rome, do as the Romans do" appears reasonable, it leads to the conclusion that what prevails as local morality is an adequate guide to ethical behavior.
- Does it make sense that it is ethically permissible for firm to hire young children for hazardous jobs in some countries but not others?

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### Ethical Relativism and the Use of Underage Labor (cont'd)

- In industrialized nations, the use of "underage" workers is considered unethical and is forbidden by law. In most societies, hiring children for hazardous work is also unacceptable and unethical, if not illegal.
- But should the rule of ethical relativism nonetheless prevail in allowing the use of underage labor for nonhazardous jobs in countries where it is customary and socially acceptable?
  - ▶ If the use of underage labor is declared unethical or illegal (based on the standards of industrialized nations) and children in poverty-stricken countries cannot work, they may be forced to seek work in lower-wage jobs in "hidden" parts of the economy of their countries, or forced into street begging or reduced to drug trafficking or prostitution.
  - ▶ Is this better than allowing the use of underage labor?
  - ▶ Should the ethical standard for using underage labor be based on ethical universalism or ethical relativism?

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### Core Concept

Strict adherence to the principles of **ethical relativism** leads to the untenable conclusion that child labor is ethically impermissible in countries where it is contrary to local custom, but is ethically permissible in countries where the use of child labor is common practice.

When it comes to the use of underage labor, is it ethically dangerous for local custom and local ethical standards to prevail over more "universal" and "morally correct" ethical principles?

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### Ethical Relativism and the Payment of Bribes and Kickbacks

- In some countries payment of bribes and kickbacks is normal and customary; in others such payments are illegal, as well as unethical
  - ▶ The Foreign Corrupt Practices Act prohibits U.S. firms from paying bribes anywhere they do business even if such payments are customary
- Firms with ethical codes forbidding payment of bribes face a formidable challenge where bribery is an entrenched local custom
  - ▶ Refusing to pay bribes or kickbacks in these countries (so as to comply with the firm's code of ethical conduct) often means losing sales to competitors willing to make such payments
  - ▶ But going along with the payment of bribes or kickbacks undercuts enforcement of and adherence to the company's code of ethics

***So should a firm observe ethical principles or wade into the moral quicksand of paying bribes to win sales?***

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### To Uphold Company Ethical Standards Worldwide or Not?

A firm that deems it ethically permissible for its personnel to pay bribes and kickbacks in countries where such payments are customary but ethically impermissible to make such payments elsewhere ***is abdicating responsibility for setting the ethical standards that all of the firm's personnel are expected to observe*** regarding the payment of bribes and kickbacks.

**Question:** Is having multiple ethical standards that vary by locale equivalent to having no ethical standard?

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## Using the Principle of Ethical Relativism Can Create Problems for Multinational Firms

- Relying upon the principle of ethical relativism to judge the ethical appropriateness of business conduct is morally troublesome.
    - ▶ If a country's culture is accepting of bribery or environmental degradation or exposing workers to dangerous conditions or child labor, then should the ethical bar for businesses be lowered to permit or condone such actions and conduct?
  - Relying upon ethical relativism poses a real dilemma for multinational firms.
    - ▶ A multinational firm that takes the position of permitting its personnel to pay bribes and kickbacks or use underage in countries where such actions are customary but forbids its personnel from engaging in such actions where they are unethical or illegal **has little moral basis for enforcing ethical standards companywide**
    - ▶ Rather, the clear message to employees is that the firm has no ethical standards or principles of its own, preferring to let its practices be governed by the countries in which it operates.
- Having multiple sets of ethical standards without some kind of higher order moral compass is a slippery slope to negotiate.**

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## The Ethical Dilemma of Multinational Enterprises

Managers in multinational enterprises have to figure out how to navigate the gray zone that arises when operating in two cultures with differing customs and ethical standards.

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## Ethics and Integrative Social Contracts Theory

- According to **integrative social contracts theory**, the ethical standards a firm should try to uphold are governed by:
    - ▶ A limited number of universal ethical principles that are widely recognized as putting legitimate ethical boundaries on actions and behavior in **all** situations
    - and**
    - ▶ The circumstances of local cultures, traditions, and shared values that further prescribe what constitutes ethically permissible behavior and what does not in a given locality
- However, universal ethical standards always take precedence over locally acceptable behaviors**

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## The "Social Contract" Piece of Integrative Social Contracts Theory

- Universal ethical agreements about what is morally right and wrong **form a contract with society (a "social contract") that is binding on all individuals, groups, organizations, and businesses in terms of establishing right and wrong and drawing the line between ethical and unethical behaviors**
  - ▶ In instances involving universally applicable ethical norms, there can be no compromise on what is ethically permissible and what is not
  - ▶ But these universal ethical principles still leave some **"moral free space"** for the people in a particular country (or local culture or group) to **specify what other actions may or may not be permissible within the bounds defined by universal ethical principles**
  - ▶ While firms, professional associations, and other business-relevant groups are "contractually obligated" to society to observe universal ethical norms, they have the **discretion to specify other behaviors that are out of bounds and place further limitations on what is considered ethical.**

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## Core Concept

According to **integrative social contracts theory**, universal ethical principles or norms based on the collective views of multiple cultures and societies combine to form a "social contract" that **all** individuals, groups, organizations, and businesses in **all** situations have a duty to observe.

- Within the boundaries of this social contract, local cultures or groups can specify what other actions may or may not be ethically permissible.
- Nonetheless, **universal ethical standards take precedence over locally acceptable ethical behaviors when there is a conflict.**

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## Core Concept

In instances involving universally applicable ethical norms (like paying bribes or employing children in hazardous jobs), there can be **no compromise** on what is ethically permissible and what is not.

According to integrative social contracts theory, **adherence to universal or "first-order" ethical norms should always take precedence over local or "second-order" norms.**

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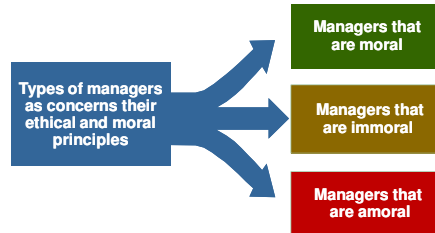
### The Strength of Integrative Social Contracts Theory

- Integrative social contracts theory accommodates the best parts of ethical universalism and ethical relativism
  - ▶ It is indisputable that cultural differences impact how business is conducted in various parts of the world and that these cultural differences sometimes give rise to different standards as to what is ethically acceptable
  - ▶ But it is just as indisputable that **some ethical norms are more authentic or universally applicable than others**
  - ▶ In many instances of cross-country differences in ethical standards, one side is likely to be more "ethically correct" or "more right" than another
  - ▶ In resolving cross-country differences in ethical standards, universal or "first-order" ethical standards should override local or "second-order" ethical norms

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### The Three Categories of Management Morality



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### Traits of a Moral Manager

- Is dedicated to high standards of ethical behavior in
  - ▶ Own actions
  - ▶ How the firm's business is to be conducted
- Is a steward of ethical behavior
- Believes it is important to pursue success in business within the confines of both the letter and the spirit of what is ethical and legal
- Regards complying with the law as an ethical minimum and have a habit of operating well above what the law requires



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### Traits of an Immoral Manager

- Has no regard for ethical standards in business
- Pays no attention to ethical principles in making decisions and conducting the firm's business
- Believes good people cannot spend time watching out for others and agonizing over "the right thing to do"
- Thinks nice guys come in second and that in the business world you either trample on others or get trampled yourself
  - ▶ What really matters is single-minded pursuit of one's own best interests
- Has few scruples, little or no integrity, and is willing to do most anything if unlikely to be caught
  - ▶ May even be willing to short-circuit legal and regulatory requirements



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### Traits of an Amoral Manager

- Are of the strong opinion that businesses ought to be able to do whatever the prevailing laws and regulations allow them to do
  - ▶ If particular business actions and behaviors are legal and do not violate prevailing rules and regulations, then they should not be seen as unethical
- View the observance of high ethical standards (doing more than what laws and regulations require) as too Sunday-schoolish for the tough competitive world of business
  - ▶ However, observing some higher ethical considerations may be appropriate in life outside of business
- A concept of right and wrong that is lawyer-driven:
  - ▶ "How much can we get by with?"
  - ▶ "What are the risks of going ahead if a particular action is borderline?"

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### Core Concept

**Amoral managers** believe that firms ought to be able to do whatever current laws and regulations allow them to do without being shackled by any ethical considerations. They think that what is permissible and what is not is governed entirely by prevailing laws and regulations, not by societal concepts of right and wrong.

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## Evidence of Managerial Immorality in the Global Business Community

- Evidence indicates **a sizable majority of managers are** either

► **Amoral**

or

► **Immoral**

**Recent issues of the Global Corruption Report show that corruption among public officials and in business transactions is widespread across the world**



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**Table 9.1 Corruption Perceptions Index, Selected Countries, 2008**

Country	2008 CPI Score*	90% Confidence Range	No. of Surveys Used	Country	2008 CPI Score*	90% Confidence Range	No. of Surveys Used
Denmark	9.3	9.1-9.4	6	Israel	6.0	5.6-6.3	6
New Zealand	9.3	9.2-9.5	6	Taiwan	5.7	5.4-6.0	9
Sweden	9.3	9.2-9.4	6	South Korea	5.6	5.1-6.3	9
Singapore	9.2	9.0-9.3	9	Malaysia	5.1	4.5-5.7	9
Finland	9.0	8.4-9.4	6	South Africa	4.9	4.5-5.1	8
Switzerland	9.0	8.7-9.2	6	Italy	4.8	4.0-5.5	6
Iceland	8.9	8.1-9.4	5	Turkey	4.6	4.1-5.1	7
Netherlands	8.9	8.5-9.1	6	China	3.6	3.1-4.3	9
Australia	8.7	8.2-9.1	8	Mexico	3.6	3.4-3.9	7
Canada	8.7	8.4-9.1	6	Brazil	3.5	3.2-4.0	7
Hong Kong	8.1	7.5-8.6	8	Saudi Arabia	3.5	3.0-3.9	5
Norway	7.9	7.5-8.3	6	India	3.4	3.2-3.6	10
Germany	7.9	7.5-8.2	6	Argentina	2.9	2.3-3.3	7
United Kingdom	7.7	7.2-8.1	6	Vietnam	2.7	2.4-3.1	9
Japan	7.3	7.0-7.6	8	Pakistan	2.5	2.0-2.8	7
United States	7.3	6.7-7.7	8	Russia	2.1	1.9-2.5	8
Chile	6.9	6.5-7.2	7	Syria	2.1	1.6-2.4	5
France	6.9	6.5-7.3	6	Venezuela	1.9	1.8-2.0	7
Spain	6.5	5.7-6.9	6	Somalia	1.0	0.5-1.4	4

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## What Are the Drivers of Unethical Strategies and Business Behavior?

Overzealous pursuit of wealth and other selfish interests

Heavy pressures on company managers to meet or beat performance targets

A company culture that puts profitability and good business performance ahead of ethical behavior

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## Overzealous Pursuit of Wealth and Other Selfish Interests

- People obsessed with wealth accumulation, greed, power, status, and other selfish interests often

► Push ethical principles aside in their quest for self gain

► Exhibit few qualms in

• Skirting the rules or

• Doing whatever is necessary to achieve their goals

► Engage in all kinds of unethical strategic maneuvers and behaviors



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## Heavy Pressures on Company Managers to Meet or Beat Performance Targets

- Managers can feel enormous **pressure to do whatever it takes** to deliver good results

► Often their compensation depends heavily on company performance

► As the pressure builds, they start stretching the rules further and further, until the limits of ethical conduct are overlooked

- Once ethical boundaries are crossed in efforts to "meet or beat their numbers," the threshold for making more extreme ethical compromises becomes lower



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## Company Cultures that Put Bottom Line Ahead of Ethical Behavior

- In an ethically corrupt or amoral work climate, people have a company-approved license to

► Ignore "what's right"

► Engage in most any behavior or employ most any strategy they think they can get away with

- Pressures to conform to cultural norms can prompt otherwise honorable people to

► Make ethical mistakes

► Succumb to the many opportunities to engage in unethical practices



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## Why Should Company Strategies Be Ethical?

### Two Reasons:

- ▶ Because a strategy that is unethical in whole or in part **is morally wrong and reflects badly on the character of the company personnel involved**
- ▶ Because an ethical strategy is **good business and in the self-interest of shareholders**



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## The Moral Case for an Ethical Strategy

### **Moral managers believe unethical strategies are morally wrong**

- Ethical strategy-making generally begins with managers that have strong moral character and truly care about conducting the firm's business in an honorable manner.
- Managers with high ethical principles and standards are advocates of a corporate code of ethics and strong ethics compliance
  - ▶ They are committed to corporate values and business principles.
  - ▶ They walk the talk in displaying the firm's stated values and in living up to its ethical standards.
  - ▶ They believe ethical standards should paint the white lines for a firm's actual strategy and business conduct.

**As a consequence, ethically strong managers consciously opt for strategic actions that can pass moral scrutiny—they display no tolerance for strategies with ethically controversial components.**

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## The Moral Case for an Ethical Strategy

The moral case for ethical strategy-making is predicated on the belief that crafting and pursuing a wholly ethical strategy is the only "right" or "morally correct" way to run a business; a strategy with unethical elements cannot withstand moral scrutiny and is therefore "wrong."

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## The Business Case for Ethical Strategies

- Deliberate pursuit of unethical strategies and tolerance of unethical conduct is **a risky practice from both a shareholder perspective and a reputational standpoint.**
- A firm can incur large and burdensome costs when unethical behavior on its part is discovered, the wrongdoings of the firm's personnel are headlined in the media, and it is forced to make amends for its behavior.
- The more egregious are a firm's ethical violations,
  - ▶ The higher the costs of making amends and taking corrective actions
  - ▶ The greater the damage to its reputation and to the reputations of the company personnel involved
- Shareholders suffer major damage (in the form of lower earnings, a lower stock price, and perhaps lower dividends) when a company's unethical conduct is discovered and punished

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## The Business Case for Ethical Strategies

Conducting business in an ethical fashion is in a firm's enlightened self-interest. While one can point to firms and individuals that have profited from unscrupulous behavior (because it went undetected or unpunished), it is hard to argue convincingly that ethical misconduct pays off or that it is smart for business people to do whatever they think they can get away with—the *costs of making amends for wrongdoing and rehabilitating a tarnished reputation can be very sizable.*

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**Figure 9.1 The Many Different Costs That Companies Incur When Ethical Wrongdoing Is Discovered**

Visible costs	Internal administrative costs	Intangible or less visible costs
<ul style="list-style-type: none"> <li>Government fines and penalties</li> <li>Civil penalties arising from class-action lawsuits and other litigation aimed at punishing the company for its offense and the harm done to others</li> <li>The costs to shareholders in the form of a lower stock price (and possibly lower dividends)</li> </ul>	<ul style="list-style-type: none"> <li>Legal and investigative costs incurred by the company</li> <li>The costs of providing remedial education and ethics training to company personnel</li> <li>The costs of taking corrective actions</li> <li>Administrative costs associated with ensuring future compliance</li> </ul>	<ul style="list-style-type: none"> <li>Customer defections</li> <li>Loss of reputation</li> <li>Lost employee morale and higher degrees of employee cynicism</li> <li>Higher employee turnover</li> <li>Higher recruiting costs and difficulty in attracting talented employees</li> <li>Adverse effects on employee productivity</li> <li>The costs of complying with often harsher government regulations</li> </ul>

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### Unethical Behaviors Are Costly and Damage Shareholders

Shareholders suffer major damage in the form of lower earnings, a lower stock price, and perhaps lower dividends when a firm's unethical behavior is discovered and punished.

Making amends for unethical business conduct is costly, and it can take years to rehabilitate a firm's tarnished reputation.

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### The Concepts of Social Responsibility and Good Corporate Citizenship

- The essence of socially responsible business behavior is that a firm should balance strategic actions to benefit shareholders against the **duty to be a good corporate citizen**
- The underlying thesis is that a firm and its managers have a **duty** to
  - ▶ Display a **social conscience** in operating the business
  - ▶ Take into account how managerial decisions and company actions affect the well-being of employees, local communities, the environment, and society at large.

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### Core Concept

The notion of **social responsibility** as it applies to businesses concerns a company's duty to operate in an honorable manner, provide good working conditions for employees, be a good steward of the environment, and actively work to better the quality of life in the local communities where it operates and in society at large.

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### What Does Acting in a Socially Responsible Manner Entail?

- Socially responsible behavior and good corporate citizenship entails:
  - ▶ Striving to employ an ethical strategy and observe ethical principles in operating the business
  - ▶ Making charitable contributions, donating money and the time of firm's personnel to community service endeavors, supporting various worthy organizational causes, and reaching out to make a difference in the lives of the disadvantaged
  - ▶ Taking actions to protect or enhance the environment and, in particular, to minimize or eliminate any adverse impact on the environment stemming from the company's own business activities
  - ▶ Creating a work environment that enhances the quality of life for employees and makes the company a great place to work
  - ▶ Building a diverse workforce with respect to gender, race, national origin, and other aspects that different people bring to the workplace

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### Core Concept

A company's **social responsibility strategy** is defined by the specific combination of socially beneficial and community citizenship activities it opts to support with its contributions of time, money, and other resources.

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## Environmental Sustainability Strategies: A New Priority

- A firm's **environmental sustainability strategy** entails deliberate actions to:

- ▶ Protect and enhance the sustainability of natural resources and the environment
- ▶ Maintain ecological support systems for future generations
- ▶ Guard against ultimate endangerment of the planet

**Achievement of such strategies enable a firm's operations to be sustainable for centuries**

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## Core Concept

A firm's **environmental sustainability strategy** consists of its deliberate actions to protect the environment, provide for the longevity of natural resources, maintain ecological support systems for future generations, and guard against ultimate endangerment of the planet.

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## Social Responsibility Strategies and the Triple Bottom Line

- Growing numbers of firms are recognizing the merits of measuring their performance in the social responsibility arena and have set formal performance targets in three areas: "profit, people, and planet"—the firm's **"triple bottom line" or TBL**.
- The **profit component** of TBL concerns the traditional measure of the firm's performance and refers broadly to the firm's overall financial and strategic performance, not simply the bottom line of the income statement
- The **people component**, or "social bottom line," is intended as a composite measure of the impact that the firm's various social initiatives have on people (employees, those living in communities where the company operates, and the members of society at large)
- The **planet component**, or "environmental bottom line," refers to the firm's ecological impact and its contributions to environmental sustainability

**The TBL concept highlights a firm's efforts to be a better corporate citizen, to contribute to the well-being of more than just its customers and shareholders, and to deliberately manage its activities in ways that grow its social and environmental bottom lines.**

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## Example: Unilever's Environmental Sustainability Strategy

Tracked 11 sustainability agricultural indicators in its processed foods business

Launched various programs to improve environmental performance of suppliers

Reengineered internal processes to improve overall performance on sustainability measures

Redesigned packaging for many products to conserve natural resources and reduce volume of consumer waste

Addressed societal needs of consumers in developing countries

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## The Moral Case for Corporate Social Responsibility and Environmentally Sustainable Business Practices

**"It's the right thing to do."**

- ▶ Ordinary decency, civic-mindedness, and contributing to the well-being of society should be expected of any business
- Business operates on the basis of an implied social contract with the members of society
  - ▶ Society grants a business the right to conduct its business affairs and agrees not to unreasonably restrain its pursuit of a fair profit for the goods or services it sells
- In return for this "license to operate," a business is obliged to:
  - ▶ Act as a responsible citizen
  - ▶ Do its fair share to promote the general welfare

**Every firm has a moral obligation to be a good corporate citizen.**

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## The Business Case for Corporate Social Responsibility and Environmentally Sustainable Business Practices

- There are definitely **good business reasons** why firms should be public-spirited and devote time and resources to social responsibility initiatives, environmental sustainability, and good corporate citizenship:
  - ▶ Such actions can lead to increased buyer patronage
  - ▶ A strong commitment to socially responsible behavior reduces the risk of reputation-damaging incidents and lawsuits
  - ▶ Socially responsible actions yield internal benefits (particularly as concerns employee recruiting, workforce retention, and training costs) and can improve operational efficiency
  - ▶ Well-conceived social responsibility strategies work to the advantage of shareholders

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### Should Shareholders Support Spending on Strategies to Be Socially Responsible?

- There is scant evidence indicating shareholders are disadvantaged in any meaningful way by a firm's actions to be socially responsible; on the contrary, evidence is increasing that shareholders benefit from a well-conceived social responsibility strategy—especially from a reputation-enhancing standpoint.

*The higher the public profile of a firm or its brand, the greater the scrutiny of its activities and the higher the potential for it to become a target for pressure group action.*

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### Holding Firms Responsible for Their Social Harms

- Calling a halt to the harmful actions that result from the bad behaviors of firms usually hinges upon:
  1. The effectiveness of activist social groups in publicizing a firm's harmful actions and marshaling public opinion for something to be done
  2. The enactment of corrective legislation or regulations
  3. Decisions on the part of socially conscious buyers to take their business elsewhere

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### Questions for Simulation Company Co-Managers

- Should shareholders applaud your company's social responsibility strategy?
  - ▶ Could shareholders justifiably argue that management is spending *too much relative to the benefits being gained*?
  - ▶ What statistical evidence can you cite in defense of the amounts your company is spending on social responsibility and corporate citizenship?
- Would socially-concerned citizens applaud your company's social responsibility strategy?
  - ▶ Would they argue that you are spending *too little*?
  - ▶ What statistical evidence can you cite that indicate your company is spending an "appropriate" amount on being socially responsible and a good corporate citizen?

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