

Managing Social Responsibility and Ethics

Chapter: 6

5.1

Discuss what it means to be socially responsible and what factors influence that decision.

5.2

Explain green management and how organizations can go green.

5.3

Discuss the factors that lead to ethical and unethical behavior.

5.4

Describe management's role in encouraging ethical behavior.

5.5

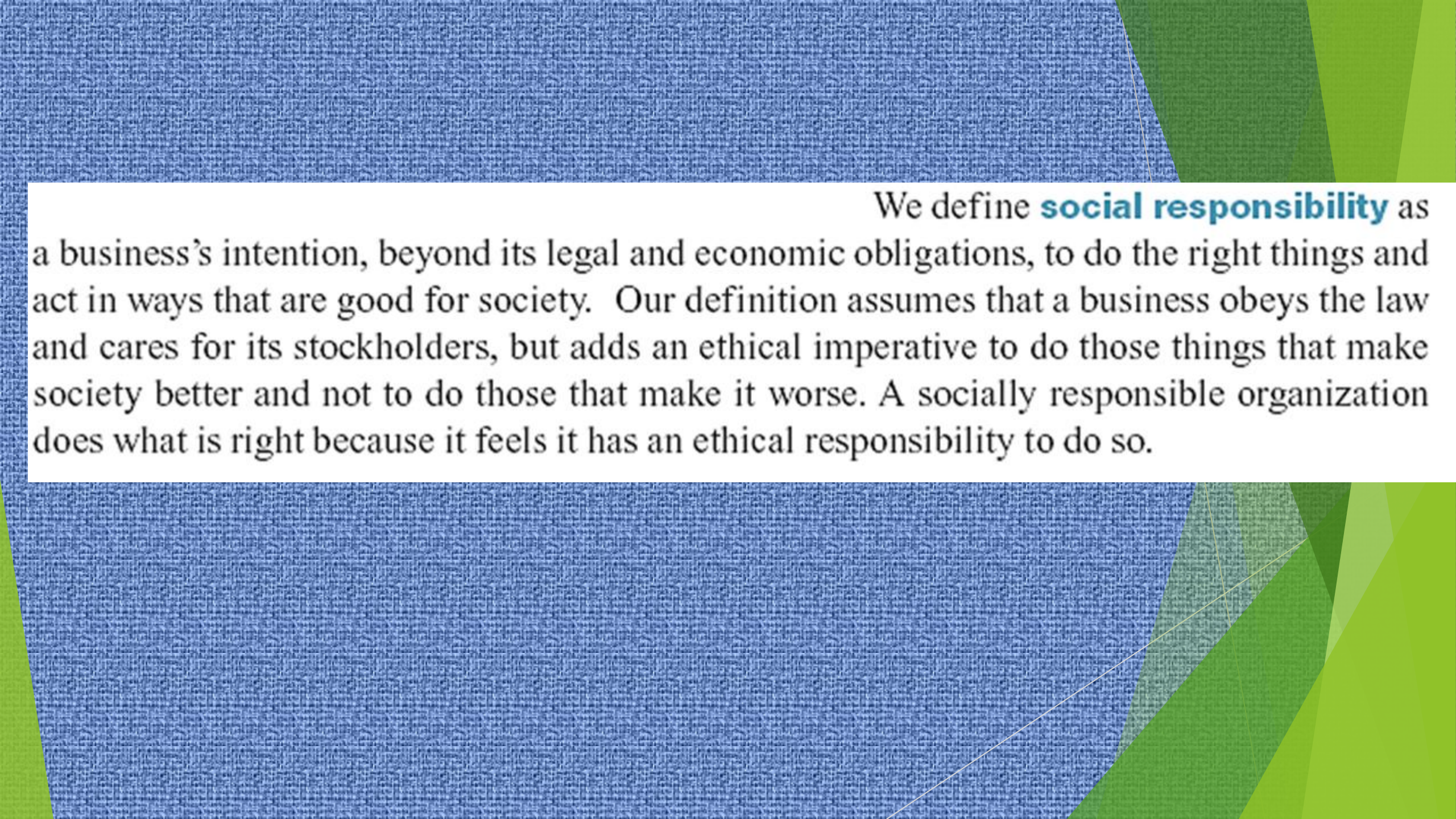
Discuss current social responsibility and ethics issues.

LEARNING OUTCOMES

Social obligation is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. The organization does what it's obligated to do and nothing more. This idea reflects the **classical view** of social responsibility, which says that management's only social responsibility is to maximize profits.

socioeconomic view, says that managers' social responsibilities go beyond making profits to include protecting and improving society's welfare. This view is based on the belief that corporations are *not* independent entities responsible only to stockholders, but have an obligation to the larger society.

Social responsiveness is when a company engages in social actions in response to some popular social need. Managers are guided by social norms and values and make practical, market-oriented decisions about their actions. For instance, Ford Motor Company became the first automaker to endorse a federal ban on sending text messages while driving. A company spokesperson said that, “The most complete and most recent research shows that activity that draws drivers’ eyes away from the road for an extended period while driving, such as text messaging, substantially increases the risk of accidents.” By supporting this ban, company managers “responded” to what they felt was an important social need.



We define **social responsibility** as a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society. Our definition assumes that a business obeys the law and cares for its stockholders, but adds an ethical imperative to do those things that make society better and not to do those that make it worse. A socially responsible organization does what is right because it feels it has an ethical responsibility to do so.

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.	

Another way to view social involvement and economic performance is by looking at socially responsible investing (SRI) funds, which provide a way for individual investors to support socially responsible companies. (You can find a list of SRI funds at [www.socialfunds.com].) Typically, these funds use some type of **social screening**; that is, they apply social and environmental criteria to investment decisions. For instance, SRI funds usually will not invest in companies that are involved in liquor, gambling, tobacco, nuclear power, weapons, price fixing, fraud, or in companies that have poor product safety, employee relations, and environmental track records.

Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions. Although some groups were concerned with conserving natural resources, about the only reference to saving the environment was the ubiquitous printed request “Please Don’t Litter.” However, a number of environmental disasters brought a new spirit of environmentalism to individuals, groups, and organizations. Increasingly, managers have begun to consider the impact of their organization on the natural environment, which we call **green management**.

How Organizations Go Green

One model uses the terms *shades of green* to describe the different environmental approaches that organizations may take. (See Exhibit 5-2.)

1. The first approach, the *legal (or light green) approach*, is simply doing what is required legally. In this approach, which illustrates social obligation, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations without legal challenge and that's the extent of their being green.

2. As an organization becomes more sensitive to environmental issues, it may adopt the *market approach*, and respond to environmental preferences of customers. Whatever customers demand in terms of environmentally friendly products will be what the organization provides.

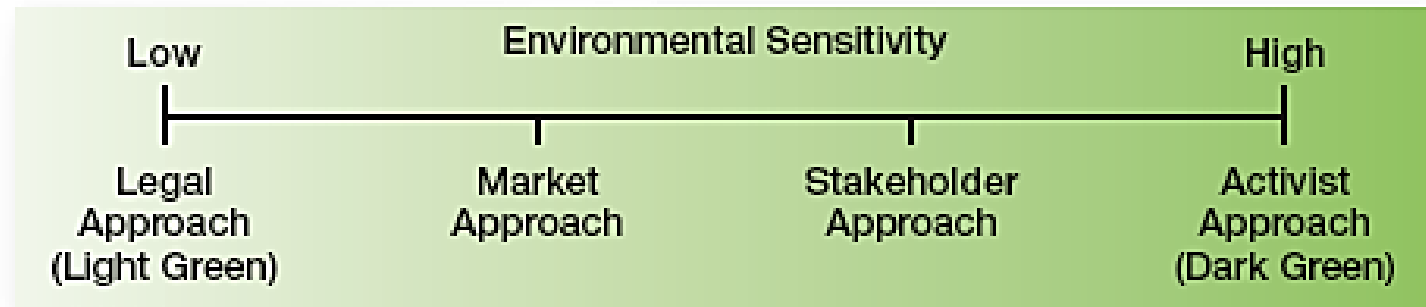
How Organizations Go Green CONT..

3. In the *stakeholder approach*, an organization works to meet the environmental demands of multiple stakeholders such as employees, suppliers, or community.
4. Finally, if an organization pursues an *activist (or dark green) approach*, it looks for ways to protect the earth's natural resources. The activist approach reflects the highest degree of environmental sensitivity and illustrates social responsibility.

EXHIBIT 5-2

Green Approaches

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).



Managers and Ethical Behavior

What do we mean by **ethics**? We're defining it as the principles, values, and beliefs that define right and wrong decisions and behavior. Many decisions that managers make require them to consider both the process and who's affected by the result.

Factors That Determine Ethical and Unethical Behavior

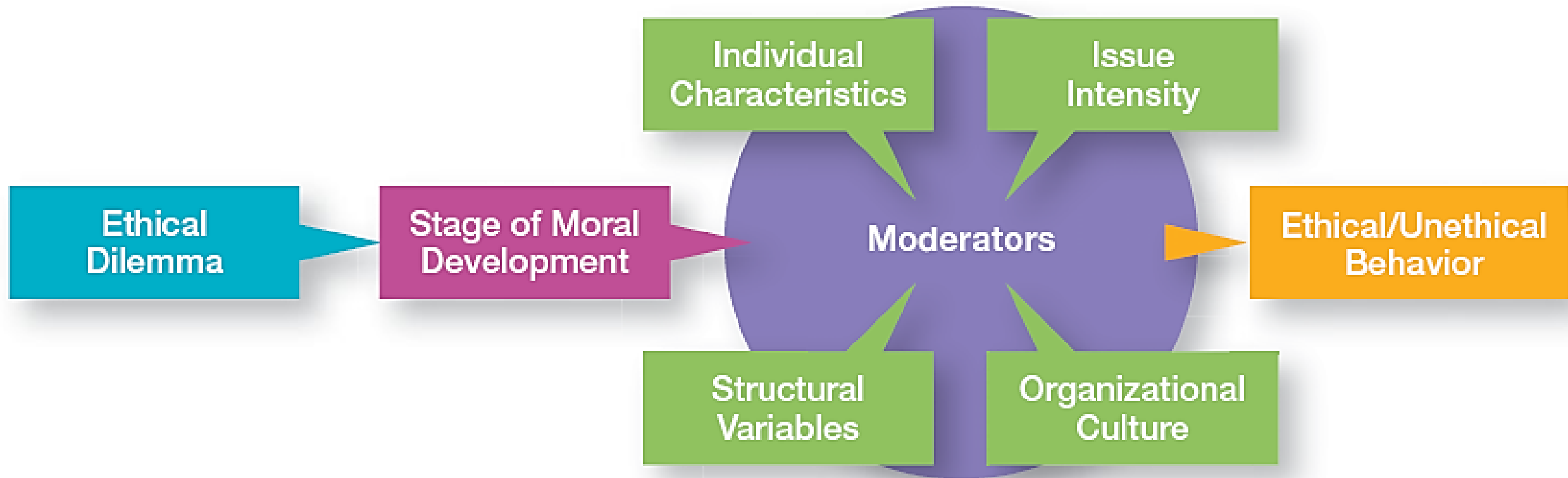
Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things:

1. STAGE OF MORAL DEVELOPMENT
2. INDIVIDUAL CHARACTERISTICS
3. STRUCTURAL VARIABLES
4. ORGANIZATION'S CULTURE
5. ISSUE INTENSITY



EXHIBIT 5-3

Factors that Determine Ethical and Unethical Behavior



STAGE OF MORAL DEVELOPMENT.

Research divides moral development into three levels, each having two stages. At each successive stage, an individual's moral judgment becomes less dependent on outside influences and more internalized.

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

EXHIBIT 5-4

Stages of Moral Development

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.

INDIVIDUAL CHARACTERISTICS.

Two individual characteristics—values and personality— play a role in determining whether a person behaves ethically.

Each person comes to an organization with a relatively entrenched set of personal **values**, which represent basic convictions about what is right and wrong. Our values develop from a young age based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.

INDIVIDUAL CHARACTERISTICS. Cont...

Two personality variables have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. **Ego strength** measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right and be more consistent in their moral judgments and actions than those with low ego strength.

Locus of control is the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus believe what happens to them is due to luck or chance. They're less likely to take personal responsibility for the consequences of their behavior and more likely to rely on external forces.

STRUCTURAL VARIABLES.

An organization's structural design can influence whether employees behave ethically. Those structures that minimize ambiguity and uncertainty with formal rules and regulations and those that continuously remind employees of what is ethical are more likely to encourage ethical behavior. Other structural variables that influence ethical choices include goals, performance appraisal systems, and reward allocation procedures.

Although many organizations use goals to guide and motivate employees, those goals can create some unexpected problems. One study found that people who don't reach set goals are more likely to engage in unethical behavior, even if they do or don't have economic incentives to do so. The researchers concluded that "goal setting can lead to unethical behavior."

STRUCTURAL VARIABLES. Cont...

An organization's performance appraisal system also can influence ethical behavior. Some systems focus exclusively on outcomes, while others evaluate means as well as ends. When employees are evaluated only on outcomes, they may be pressured to do whatever is necessary to look good on the outcomes, and not be concerned with how they got those results. Research suggests that "success may serve to excuse unethical behaviors."

Closely related to the organization's appraisal system is how rewards are allocated. The more that rewards or punishment depend on specific goal outcomes, the more employees are pressured to do whatever they must to reach those goals, perhaps to the point of compromising their ethical standards.

ORGANIZATION'S CULTURE.

The content and strength of an organization's culture also influence ethical behavior. An organization's culture consists of the shared organizational values.

These values reflect what the organization stands for and what it believes in as well as create an environment that influences employee behavior ethically or unethically. When it comes to ethical behavior, a culture most likely to

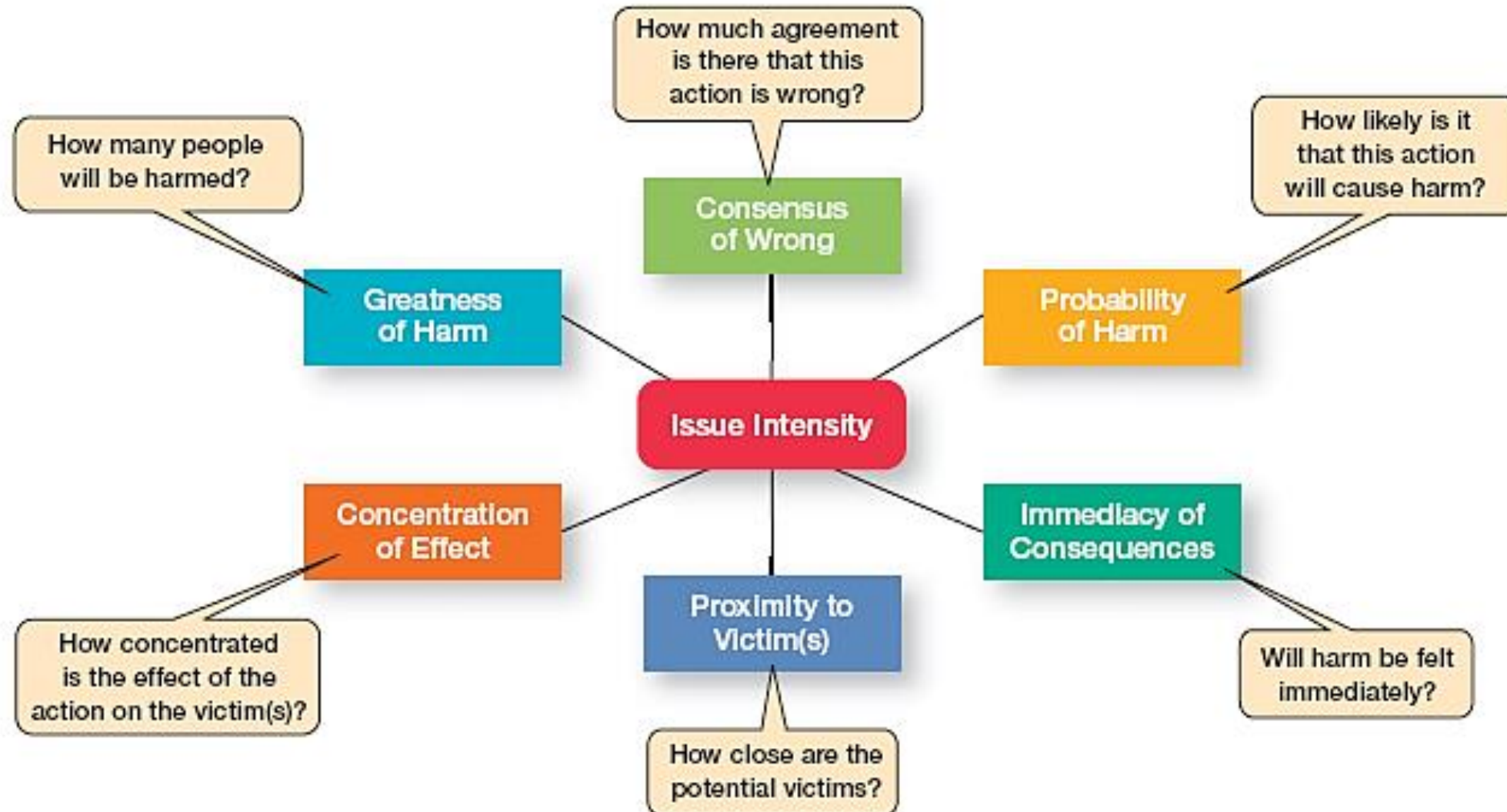
Because shared values can be powerful influences, many organizations are using **values-based management**, in which the organization's values guide employees in the way they do their jobs. For instance, Timberland is an example of a company using values-based management. With a simple statement, "Make It Better," employees at Timberland know what's expected and valued; that is, find ways to "make it better"—whether it's creating quality products for customers, performing community service activities, designing employee training programs, or figuring out ways to make the company's packaging more environmentally friendly. As CEO Jeffrey Swartz says on the company's Web site, "Everything we do at Timberland grows out of our relentless pursuit to find a way to make it better."

ISSUE INTENSITY.

A student who would never consider breaking into an instructor's office to steal an accounting exam doesn't think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam.

Six 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. These factors suggest that the larger the number of people harmed, the more agreement that the action is wrong, the greater the likelihood that the action will cause harm, the more immediately that the consequences of the action will be felt, the closer the person feels to the victim(s), and the more concentrated the effect of the action on the victim(s), the greater the issue intensity or importance.

When an ethical issue is important, employees are more likely to behave ethically.



Ethics in an International Context

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical behavior.

For example, the manager of a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract. Although this business practice is acceptable in Mexico, it's unethical (and illegal) in the United States.

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.

Source: Courtesy of UN Global Compact.

Encouraging Ethical Behavior

Managers can do a number of things if they're serious about encouraging ethical behaviors—hire employees with high ethical standards, establish codes of ethics, lead by example, and so forth. By themselves, such actions won't have much of an impact. But if an organization has a comprehensive ethics program in place, it can potentially improve an organization's ethical climate.

Employee Selection

The selection process (interviews, tests, background checks, and so forth) should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.

Codes of Ethics and Decision Rules

A **code of ethics**, a formal statement of an organization's values and the ethical rules it expects employees to follow, is a popular choice for reducing that ambiguity.

Uncertainty about what is and is not ethical can be a problem for employees.

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.
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.

1. Organizational leaders should model appropriate behavior 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 (see Exhibit 5-8) to guide employees when faced with ethical dilemmas.

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?

Ethics Training

- More organizations are setting up seminars, workshops, and similar ethics training programs to encourage ethical behavior.
- Such training programs aren't without controversy as the primary concern is whether ethics can be taught.
- Critics stress that the effort is pointless because people establish their individual value systems when they're young.
- Proponents note, however, several studies have shown that values can be learned after early childhood. In addition, they cite evidence that shows that teaching ethical problem solving can make an actual difference in ethical behaviors; that training has increased individuals' level of moral development; and that, if nothing else, ethics training increases awareness of ethical issues in business.

Independent Social Audits

- The fear of being caught can be an important deterrent to unethical behavior. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase that likelihood.
- Such audits can be regular evaluations or they can occur randomly with no prior announcement.
- An effective ethics program probably needs both.
- To maintain integrity, auditors should be responsible to the company's board of directors and present their findings directly to the board.

Protective Mechanisms

- Employees who face ethical dilemmas need protective mechanisms so they can do what's right without fear of reprimand.
- An organization might designate ethical counselors for employees facing an ethics dilemma.
- These advisors also might advocate the ethically “right” alternatives.
- Other organizations have appointed ethics officers who design, direct, and modify the organization's ethics programs as needed.

ETHICAL LEADERSHIP

- Managers must provide ethical leadership.
- What managers *do* has a strong influence on employees' decisions whether to behave ethically.
- When managers cheat, lie, steal, manipulate, take advantage of situations or people, or treat others unfairly, what kind of signal are they sending to employees (or other stakeholders)?

Exhibit 5-9 gives some suggestions on how managers can provide ethical leadership.

EXHIBIT 5-9

Being an Ethical Leader

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- 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.
-

whistle-blower

Individuals who raise ethical concerns or issues to others

What would you do if you saw other employees doing something illegal, immoral, or unethical? Would you step forward? Many of us wouldn't because of the perceived risks. That's why it's important for managers to assure employees who raise ethical concerns or issues that they will face no personal or career risks. These individuals, often called **whistle-blowers**, can be a key part of any company's ethics program.

A **social entrepreneur**, an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches. “What business entrepreneurs are to the economy, social entrepreneurs are to social change.” Social entrepreneurs want to make the world a better place and have a driving passion to make that happen.

Since 1946,

Businesses Promoting Positive Social Change

CORPORATE PHILANTHROPY. Corporate philanthropy can be an effective way for companies to address societal problems. For instance, the breast cancer “pink” campaign and the global AIDS Red campaign (started by Bono) are ways that companies support social causes.

Thank You!