

Chapter 3 - Management's Social and Ethical Responsibilities

Kreitner/Eliason Foundations of Management

Social Responsibility: Definition and Debate

The idea that firms have obligations to society beyond their economic obligations to owners or stockholders and also beyond those prescribed by law or contract.

Example: John D Rockefeller was the founder of Standard Oil Company, with some advice from a public relations expert. Rockefeller began handing out dimes to rows of eager children to counteract his widespread reputation as a monopolist. The dime campaign turned out unsuccessful, but Rockefeller viewed it as if he was fulfilling a social responsibility by handing out money to hungry children. The concept of social responsibility has further developed since Rockefeller's time and many companies are now involved in such programs.

What Does Social Responsibility Involve

Social responsibility is a relatively new concern for the business community and the idea of corporate social responsibility is evolving. However, there are many disputes over the exact nature and scope of management's social responsibilities.

Voluntary Action

The central feature of corporate social responsibility is that an action has to be voluntary to qualify as socially responsible. However, when companies do not respond to societal needs, lawsuits and court orders can be issued, which makes actions mandatory, not voluntary.

An Emphasis on Means, Not Ends

Corporate behavior should not, in most cases, be judged by the decisions (ends) ultimately reached, but by the process (means) in which they were reached.

Arguments for and Against Corporate Social Responsibility

The role of business in society has spawned many arguments for and against corporate social responsibility. Four major arguments on both sides reveal the principal issues.

Arguments For:

1. Businesses are unavoidably involved in social issues. Businesses are either part of the solution or part of the problem. (Example: unemployment, inflation, and pollution.)
2. Businesses have the resources to tackle today's complex societal problems. Private business sectors can play a decisive role in solving society's more troubling problems.

3. A better society means a better environment for doing business. Business can enhance its long-run profitability by making an investment in society today.
4. Corporate Social action will prevent government intervention. Government will force business to do what it fails to do voluntarily.

A Stakeholder Audit identifies all parties possibly impacted by the organization, since many groups in society besides stockholders have a stake in corporate affairs.

Arguments Against:

1. Profit maximization ensures the efficient use of society's resources. When consumers purchase goods and services, they ultimately dictate where assets should be deployed.
2. As economic institutions, businesses generally lack the ability to pursue social goals. Gross inefficiencies can be expected if managers divert their attention from the pursuit of economic goals.
3. Businesses already have enough power. Businesses already exercise influence over where and how we work, live, purchase goods and perceive value. There is no need to hand them over more power.
4. Since managers are not elected, they are not directly accountable for the people. Corporate social programs can easily become misguided.

The assumption is that businesses should stick to pursuing profit by producing marketable goods and services. Other institutions, such as family, school, and government, should handle social goals.

Toward Greater Social Responsibility

An iron law of responsibility states that, in the long run, those businesses who do not use their power in a way that society considers responsible will eventually lose their power.

Social Responsibility Strategies

The social responsibility continuum is marked by four strategies: reaction, defense, accommodation, and proaction.

Reaction

A reactive social responsibility strategy is denying responsibility and resisting change.

Defense

A defensive social responsibility strategy is resisting additional responsibility with legal and public relations tactics.

Accommodation

An accommodative social responsibility strategy is assuming additional responsibilities in response to pressure.

Proaction

A proactive social responsibility strategy is taking the initiative with new programs that serve as models for industry.

Who Benefits from Corporate Social Responsibility?

Social responsibility should be motivated by altruism, which is an unselfish devotion to the interest of others. Research paints a bright picture.

- A study of 243 companies over two years found a positive correlation between industry leadership in environmental protection/pollution control and profitability. The researchers conclude: “It pays to be green.”
- A second study found a good reputation for corporate social responsibility to be a competitive advantage in recruiting talented people.

Enlightened Self- Interest

Enlightened self-interest states that a business is ultimately helping itself by helping to solve societal problems. Advocates contend that social responsibility expenditures by businesses are motivated by profit. Researchers support this contention by researching into corporate philanthropy, which is the charitable donation of company resources.

An Array of Benefits for the Organization

- Tax-free incentives to employees.
- Retention of talented employees by satisfying their altruistic motives.
- Help in recruiting talented and socially conscious personnel.
- Swaying public opinion against government intervention.
- Improved community living standards for employees.
- Attracting socially conscious investors.
- A nontaxable benefit for employees in which company funds are donated to their favorite causes.

“Social responsibility can be a win-win proposition.”

The Ethical Dimension of Management

Ethics is defined as the study of moral obligation involving right versus wrong. Business ethics are sometimes referred to as management ethics or organizational ethics. It narrows the frame of reference to productive organizations.

Practical Lessons from Business Ethics Research

Empirical research permits us to go beyond mere intuition and speculation to determine more precisely who, what, and why. Three practical insights for

managers have been produced: ethical hot spots, pressure from above, and discomfort with ambiguity.

Ethical hot Spots

Top ten workplace hot spots responsible for triggering unethical and illegal conduct

- Balancing work and family
- Poor internal communications
- Poor leadership
- Work hours, workload
- Lack of management support
- Need to meet sales, budget, or profit goals
- Little or no recognition of achievements
- Company politics
- Personal financial worries
- Insufficient resources

Pressure from Above

Studies have uncovered the problem of perceived pressure to produce results.

- Most workers feel some pressure to act unethically or illegally on the job (56%), but far fewer (17%), feel a high level of pressure to do so
- Mid-level managers most often reported a high level of pressure to act unethically or illegally (20%). Employees of large companies cited such pressure more than those at small business (21% vs. 14%)
- High levels of pressure were reported more often by those with a high school diploma or less (21%) versus college graduates

By simply being aware of pressures from higher-level managers, employees can willfully avoid putting undue pressure on others and prepare themselves to deal with excessive organizational pressure. Excessive pressure to achieve specified results is a serious problem since it can make ethical employees take unethical shortcuts to keep their jobs.

Ambiguous Situations

Those who often face ethically ambiguous situations want formal guidelines to help sort things out.

A Call to Action

Every one of us can begin the process of improving business ethics by looking in a mirror.

General Ethical Principles

Everyone's ethical beliefs have been shaped by many factors, such as family and friends, the media, culture, schooling, religious instruction, and general life experiences. We use ethical principles both consciously and unconsciously when dealing with ethical dilemmas. The ten ethical principles are as follows:

- Self Interest
- Personal Virtues
- Religious injunctions
- Government requirements
- Utilitarian benefits
- Universal rules
- Individual rights
- Economic efficiency
- Distributive justice
- Contributing liberty

Encouraging Ethical Conduct

There are four specific ways to encourage ethical conduct within the organization.

Ethics Training

Managers who lack ethical awareness are labeled as amoral managers. Amoral managers are managers who are neither moral or nor immoral, but ethically lazy.

Key features of effective ethics training programs include:

- Top-management support.
- Open discussion of realistic ethics cases or scenarios.
- A clear focus on ethical issues specific to the organization.
- Integration of ethics themes into all training.
- A mechanism for anonymously reporting ethical violations.
- An organizational climate that rewards ethical conduct.

Ethical Advocates

An ethical advocate is a business ethics specialist who plays a role in top-management decision-making. The idea is to assign someone the specific role of critical questioner. Problems such as groupthink and blind conformity are less likely to show up when ethical advocates test management's thinking about ethical implications during the decision-making process.

Codes of Ethics

A code of ethics is a published statement of moral expectations for employee conduct. Some specify penalties for offenders. An effective code of ethics must satisfy two requirements:

- They should refer to specific practices such as kickbacks, payoffs, receiving gifts, falsifying records, and making misleading product claims.
- It must be firmly supported by top management and equitably encoded through the reward and punishment system.

A code of ethics is more important than ever in today's complex global economy.

Whistle-Blowing

Whistle-Blowing is the practice of reporting perceived unethical organizational practices to outside authorities. It is a highly controversial topic among managers. It generally puts one's job/career on the line. The challenge for management is to create an organizational climate in which the need to blow the whistle is reduced. Some ways of doing this are:

- Encourage the free expression of controversial and dissenting viewpoints.
- Streamline organization's grievance procedure so that problems receive a prompt and fair hearing.
- Find out what employees think about the organization's social responsibility policies and make appropriate changes.
- Let employees know that management respects and is sensitive to their individual consciences.
- Recognize that treating a whistle-blower harshly will probably lead to an adverse public opinion.

Reference:

Kreitner, Robert (2005) Foundations of Management: basics and best practices, Houghton Mifflin Company, New York.