

# Ethics and Corporate Social Responsibility



Figure 2.1. We need to make sure we are being fair and ethical in our actions both as individuals and organizations. [1]

## 2.1 Learning Objectives

After finishing this chapter, you will:

- Understand what a stakeholder is and how different groups are affected by decisions made within an organization.
- Recognize what constitutes an ethical dilemma and how values conflict to create dilemmas.
- Understand how people and organizations develop ethical reasoning and how it affects their decision-making processes.
- Understand different approaches to handling ethical situations.
- Learn how to promote ethics in organizational settings.

## 2.2 What is Ethics?

In the beginning, there was a definition...

In reality, there are several definitions for **ethics** <sup>■</sup>, but this one does well on several levels—the branch of philosophy dealing with values relating to human conduct, with respect to the rightness and wrongness of certain actions and to the goodness and badness of the motives and ends of such actions.<sup>1</sup>



Figure 2.2. Ethics can play an important role in a business context. [2]

**Business ethics** <sup>■</sup> is seen a little differently. When we put this into a business context, it becomes the study of proper business policies and practices regarding potentially controversial issues.<sup>2</sup>

So why do we have different definitions for these two terms? The difference is in how we perceive these issues. When we discuss individuals, we focus on the goodness and badness attached to a situation because we expect certain behaviors from human beings. When discussing businesses in regards to ethics, it becomes more difficult to put things into terms of good or bad. It instead becomes a question of what is proper, or even legal. Should it be that way, though?

Questions such as the one above are not meant to have absolute answers. This is the difficulty in trying to get a grasp on something as individualized and philosophical as ethics. The reason why ethics is such an individual issue is that every person and every organization has different **values**. <sup>■</sup> Values are important and lasting beliefs or ideals shared by the members of a culture about what is good or bad and desirable or undesirable.



Figure 2.3. Which values are you willing to stand up for? [3]

## Video

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Every person has values that they feel more strongly about, and are therefore more willing to stand up for.

# Behavioral Ethics

As managers, we are will be asked to make decisions based on our values (and therefore, our ethics). This idea of making decisions brings [behavioral ethics](#) ■ to the forefront - why people make the ethical (and unethical) decisions that they do.<sup>11</sup>

*Behavioral ethics allows us to gain insights into how people can improve their individual ethical decision-making capacities and promote ethical culture in organizations.*<sup>11</sup>

## Video

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## 2.3 Ethical Dilemmas and Values

What exactly are values? The basic gist of values is that they are the beliefs we hold about whether something is desirable or not. The issue with this is that each individual will find certain things *more* desirable than others. For instance, you may prefer domestic autos to foreign, or pepperoni on a pizza over anchovies. These differences are shaped by our [attitudes](#) ■, or a predisposition to respond positively or negatively toward something. As you grow up, your attitudes and behaviors are shaped by everything surrounding you—family, friends, schools, your environment, and a number of other players. We learn to value certain ideals more so than others.



Figure 2.4. Our friends have the ability to greatly influence our attitudes and behaviours. [4]

**Ethical dilemmas** occur when a situation arises in which two or more potentially "right" values are in conflict. Each person or organization will hold certain values higher than another, and therefore be more likely to choose to uphold those values over others. Let's look at a basic example of an ethical dilemma:

*You have a job as an IT representative for a company that also employs your best friend's husband. One day, he sends you a note requesting an email to be released from holding. To do this, you must open the email. Upon opening this message, you discover that it's actually a message between this guy and his secret lover. After releasing the email, you start to question how you should handle the situation. Your instinct is to tell your best friend about her husband's affair, but you could be terminated since divulging the contents of company emails is against company policy. There is no getting around that the information would have come from the email; all trails will inevitably lead to you as the leak.<sup>3</sup>*



Steeping some tea...

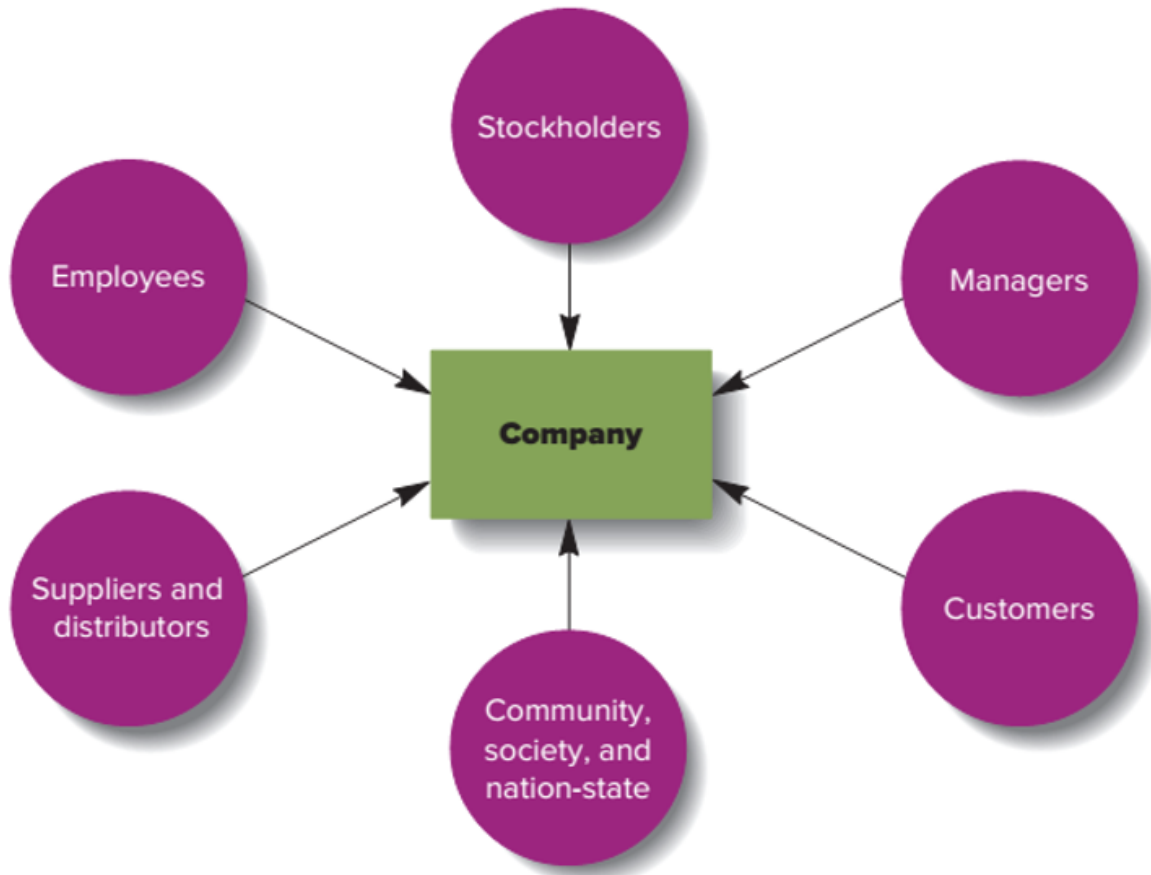
For those of you who chose to tell your best friend, you likely hold loyalty and friendship at a higher value than respecting company policy or rule-following. For those of you who chose not to tell, you likely hold gainful employment and personal security at a higher value. The point is that when it comes to ethical dilemmas, there isn't technically a "wrong" answer. One of the biggest issues with explaining and understanding ethical dilemmas is that most people think there has to be something illegal or inherently wrong occurring. That is what makes it a dilemma, that both answers could be equally justifiable as being "right" based on the decision maker's value system.

## 2.4 Stakeholders

As mentioned earlier, each person or organization is going to have their own idea of which values are more important to them. Thus, any decision is going to affect some person or group and potentially cause a conflict or issue.

Let's get into some of the different people and groups that are affected by an organization's activities. These people and groups are called **stakeholders**, and there are several different types. The most basic of these types are internal and external. However, stakeholders can come from a number of different areas

depending on what your organization does and the decisions being made. Let's take a closer look at some of these stakeholders:



Types of Company Stakeholders

## Internal Stakeholders

- **Stockholders:** Expect to maximize their return on investment
- **Managers:** Expect a good return or reward by investing their human capital to improve a company's performance
- **Employees:** Expect to receive rewards consistent with their performance

## External Stakeholders

- **Suppliers and Distributors:** Expect to be paid fairly and promptly for their inputs (suppliers) and receive quality products at agreed-upon prices (distributors)
- **Customers:** Expect to receive the purchased good and/or service; often considered the most important stakeholder
- **Community, Society, and Nation:** Expect the company to contribute to the economy of the town or region through salaries, wages, and taxes

### 2.4.1 Learning Ethics

So are we born knowing how to make these decisions? Of course not. There are several theorists out there that have studied and theorized the different ways we learn and develop our ethical thresholds over time. Probably the most well-known of these theorists is Lawrence Kohlberg. Here's a short video explaining some of **Kohlberg's theory of moral development**.<sup>4</sup>

## Video

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An important part of this theory is understanding that people need to experience life and take part in ethical situations to be able to process at higher levels. How a person responds to, and justifies, different dilemmas would signify that he or she is capable of reasoning at a certain level.

For example, in the [dilemma from above](#), how you justified your answer to the question would give a theoretical bearing of your capacity of reasoning. If you chose to tell your friend about her husband cheating because your friend would expect it, you may be at stage 3—concerned with relationships and interpersonal expectations. If you chose not to tell because corporate policy prohibits divulging the information, you may be at stage 4—concerned with adherence to laws and the social system of the institution.

More important than the level at which someone may be reasoning is that we continue to develop and learn through our experiences. It is our experiences that lead us to how we *feel* about a given situation or dilemma. It is often our feelings that dictate what justifications we make about how we handle certain situations. This brings us to a different theory of moral development—**social intuition**.<sup>5</sup>

## Video

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In contrast to older theories like Kohlberg's, Jonathan Haidt's theory of social intuition provides a newer way of thinking about how we approach these dilemmas based on our intuition or gut feelings. A constant of many theories is that we spend time analyzing and evaluating what would happen, when in many cases, Haidt (2001) argues that we actually have an instantaneous, emotional reaction about a morally charged situation. While ethics are based on individual values, **morals** are based on societal principles. So as you experience things throughout our lives, you are shaped, or developed, to think certain events are right or wrong based on the society you have experienced. According to Haidt, the moral reasoning aspect of the dilemma is actually not so much the person developing and changing as much as it is looking at how society might see the dilemma.

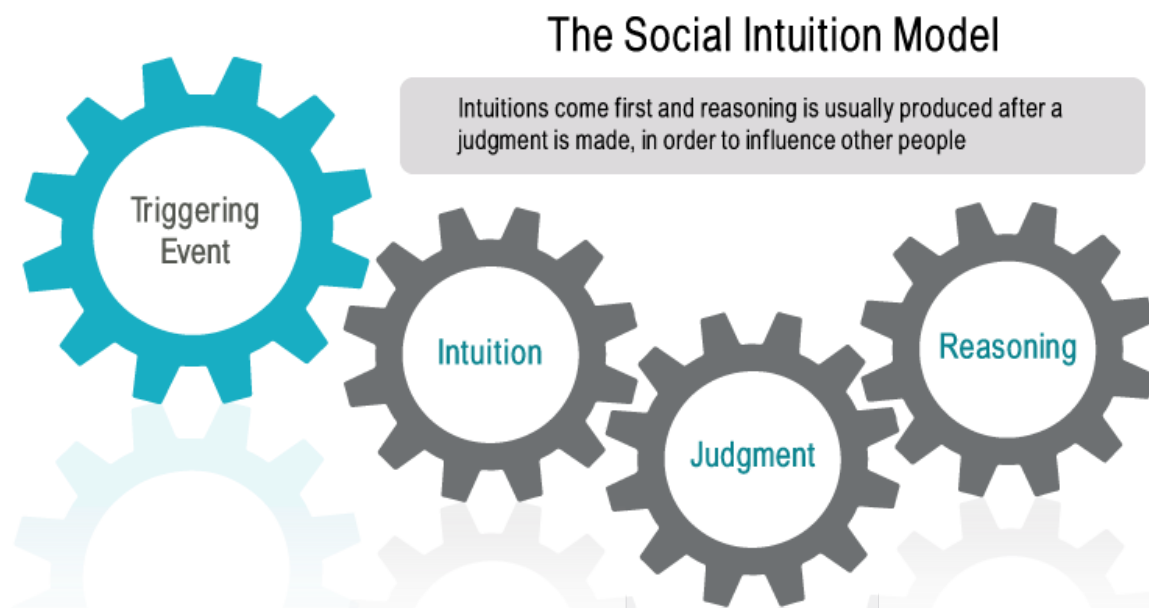


Figure 2.5. Social Intuition Model.

Again, let's look back at our [dilemma](#) from above. Per social intuition, if you are from a society that is not accepting of marital infidelities, your gut and emotions may immediately call the cheating husband a slimeball, and you would thus make a judgment that your friend should know what is going on. However, if you are from a society where monogamy isn't the norm, you would make the judgment that you keep your mouth shut about the affair. It is the social context of our experiences that shape our immediate intuitive responses.

## 2.4.2 What Makes Something an Ethical Issue?

Not everything is going to be an ethical death match that will leave you struggling with your identity. We also need to understand when ethical issues are actually present. Philosopher Ray Billington (2003) put a

few caveats on what we should see as an ethical or moral issue. The following six characteristics come in to play when discussing ethical issues:<sup>6</sup>

- **Dealing with questions of ethics and morals is unavoidable.**
  - There is not a human being that has had a career and not been confronted by some moral or ethical question to answer. It is in our nature to question others and differ in what we value.
- **Ethical decisions involve other people.**
  - There is no such thing as private ethics. Decisions of all kinds are going to affect more than one person.
- **Not all decisions have ethical implications.**
  - Importance is a factor in these situations. If the consequences are not great enough, people will not be swayed to go against a deeply-held value system.
- **There are no final answers to ethical decisions.**
  - There are no “right” and “wrong” answers in ethical dilemmas. When looking at matters that involve values, you can’t tell someone that theirs are wrong. Each individual or organization holds their own beliefs about what is most important to them.
- **A central element of ethics is choice.**
  - An ethical dilemma is just that, a dilemma, because there is a choice that needs to be made. If there were only one option, the answer wouldn’t be very difficult to choose.
- **The aim of ethical and moral reasoning is to try to discover the correct form of behavior for the given situation.**
  - Don’t take this as there being a “right” answer. No action can be deemed correct or incorrect with any absolutism because of the nature of what is being discussed. However, through discussion and analysis, certain decisions may be more justifiable than others.

### 2.4.3 Approaches for Dealing with Ethical Dilemmas

Just as values and perspectives are individualized, so too are the methods used for addressing these dilemmas.

The first approach to dealing with ethical dilemmas is the **consequentialist approach**. This approach asks the decision-maker to identify the different alternative actions as well as the consequences attached to those actions. The best-known consequentialist approach is Utilitarianism. The utilitarian approach basically states a person should choose the option that creates the greatest good for the greatest number of people. Taking this approach requires you to inspect several different options and weigh the benefits and harms those actions could possibly cause to select the best one for society as a whole.

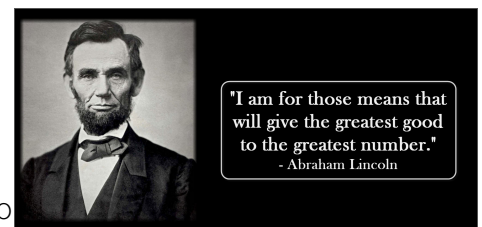


Figure 2.6. Honest Abe's approach to dealing with ethical dilemmas. [5]

## Video

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The next approach to discuss is a **deontological approach**, based on the belief that society has (or should have) several universal principles and that each of us has a duty to uphold them. So in stark contrast to the consequentialists, deontology is focused on making sure the individual takes the right action, regardless of the consequences. So let's suppose you have a time machine and have the chance to go back and kill a young (still innocent) Adolph Hitler as a child, well before he came into power. Deontology says that you should not go back and kill him because it is wrong to kill innocent people. It is more important to do the right thing, even if the consequence produces more harm.

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Another approach to discuss here is called **virtue ethics**. The virtue approach focuses on the integrity of the decision maker instead of the action or its impending consequences. In a business sense, integrity and character can be defined by the community of the decision maker. For example, if you are a lawyer or doctor, your community would define someone as high in character if they uphold the attorney-client or doctor-patient confidentiality.

## Video

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There are many factors that come in to play when it comes to finding a way to determine which course of action is the "right" one for a given situation. It is up to the decision-maker to weigh the options and decide which is the *best* one for that situation.

## Video

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## 2.5 How Do We Go About Promoting Ethics?

Learning and promoting ethics is not a quick or easy task. To truly create the correct **ethical climate** - how an organization handles motives, pressures, and its surrounding environment that may affect its overall culture—an organization has to involve all levels of management in both formal and informal ways.

First and foremost, organizations must have a formal, written set of standards to guide employees of how they should behave, or **code of ethics**, and proper training of how to follow the code that is in place. The training becomes an imperative because you want to make sure consistency is provided for all new hires and continuing education that may occur. All employees need to know how they should behave in interactions with any of the stakeholders we mentioned previously.

Along with the formal code, leadership behavior needs to be monitored and actions made according to the core values of the organization. Employees will model the behaviors of their supervisors. If a manager is cutting corners and being underhanded, his employee will see that as being acceptable and will likely follow suit without fear of repercussion. The more the leaders behave responsibly and according to the culture that is targeted, the stronger that culture will become.

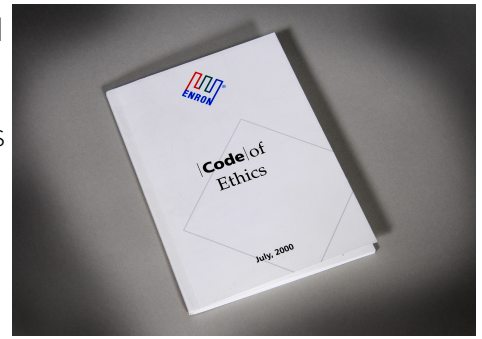


Figure 2.7. Every company has a code of ethics. However, it is the communication and leadership that dictates how well it is followed. [6]

The underlining aspect of each of these is the need to communicate ethics within an organization. Both formal and informal communication from all levels is a vital component in the existence of an ethical organization. People cannot fear discussion of ethical situations. The more comfortably employees can discuss potentially ethical issues, the more they will avoid unethical actions. Top-level managers need to make sure to highlight ethical actions in memos and reports and employees need to have regular discussions about situations to reinforce the behaviors a company aspires to have on a daily basis.

## 2.5.1 Corporate Governance

Even with proper communication and training, there is still a need to make sure the interests of the organization, its owners, and other stakeholders are being safeguarded. This concept is called **corporate governance**, and it is continuously utilized within organizations. Corporations have to go through all sorts of checks and balances to ensure that there is a separation of authority and to save the many from the follies of the few.



Figure 2.8. Companies like Enron and WorldCom have had a lot to do with advancements in regulations for ethical issues. [7]

One such example was the creation of the Sarbanes-Oxley Reform Act of 2002. This act, created by the Securities and Exchange Commission, created required guidelines for public companies to follow in regards to financial record keeping. Among other aspects, a company's CEO and CFO have to personally certify financial reports. Failure to comply could bring about severe financial penalties, as well as up to a 25-year sentence in prison for executives found to be falsifying information. This act was designed to stop companies, like Enron for example, from taking advantage of the public and exploiting markets through the use of non-certified financing.<sup>7</sup>

## Video

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Another aspect of this governance is the encouragement of **whistleblowers**—employees who disclose information that s/he reasonably believes is evidence of illegality, gross waste or fraud, mismanagement, abuse of power, general wrongdoing, or a substantial and specific danger to public health and safety. The trailblazers who have come forward and reported potential wrong-doings have helped to create change among organizations and are justly protected from retribution by the companies for coming forward and exposing illegal activity. Acts such as Sarbanes-Oxley and the Whistleblower Protection Enhancement Act (WPEA) have established guidelines for how whistleblowers can come forward without fear of retaliation. In fact, the False Claims Act has even set up rewards for whistleblowers that provide information to help the government recover funds from fraudulent companies.

## Video

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MANAGEMENT FOR TODAY

Some companies have thrived by making corporate governance an everyday component of their decision-making process. One of these companies is AT&T, who has been named several times as one of the top companies in the U.S. for corporate governance by [Corporate Responsibility Magazine](#). Among the things AT&T does to keep governance on the forefront is [publishing different material assessment briefs on their website](#) and for their employees to see how they should act in given situations.

## 2.6 Corporate Social Responsibility

The concept of [Corporate Social Responsibility \(CSR\)](#) <sup>■</sup> has become increasingly popular in the entire business community all over the world. CSR strategies can provide benefits to all interest groups and individuals in any area in which a firm operates, which management scholar R. Edward Freeman calls stakeholders.

Most corporate leaders and business advisors agree that engaging in socially responsible behavior is the correct thing for businesses to do and that if you don't listen to the needs of multiple stakeholders it could impact your business in the short to long term:



"If you're in the luckiest  
1 per cent of humanity,  
you owe it to the rest of  
humanity to think about  
the other 99 per cent."

**- Warren Buffett**

Figure 2.9. Warren Buffet, chairman and CEO of BerkshireHathaway (1970 – Present). [8]

The Unilever logo, featuring the word "Unilever" in a blue, cursive script font.

Figure 2.10. "Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business" - Niall Fitzgerald, former CEO of Unilever (1996 – 2004). [9]



Figure 2.11. "It takes 20 years to build a reputation and five minutes to ruin it." "It is not good enough to do what the law says. We need to be in the forefront of these [social responsibility] issues." - Anders Dahlvig, former CEO of IKEA (1999 – 2009). [10]

## 2.6.1 Evolution of CSR

The social responsibility of a business has evolved from a focus on the well-being of employees to make them more productive during the Industrial Revolution and to the emphasis and growth of business philanthropy by Cornelius Vanderbilt and John D. Rockefeller in the 1800s.

CSR originated as a business management concept in the early 1930s after the Wall Street crash of 1929 exposed corporate irresponsibility in large organizations. It began to take form in the 1950s with the publication of Howard R. Bowen's book *Social Responsibilities of the Businessman* in 1953. Since then, the focus of CSR on a few stakeholders has expanded to be more inclusive and global in scope.

During the past two decades, CSR has moved towards full integration with the strategy and governance of the corporation. CSR provides a business the opportunity to respond quickly to the emerging needs of the stakeholders, whether they are social, economic or environmental.

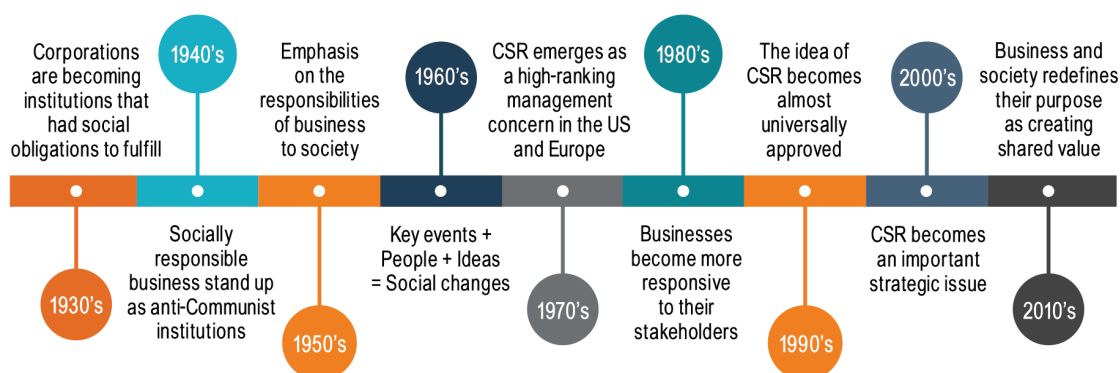


Figure 2.12. A conceptual timeline of the evolution of CSR.

## 2.6.2 Milton Friedman vs Archie Carroll

Milton Friedman, who won the Nobel Prize in Economics, made one of the most famous arguments regarding the social responsibility of corporations. Friedman's seminal article against the merits of CSR, The Social Responsibility of Business is to Increase Its Profits, was published in a 1970 edition of New York Times Magazine. Friedman's thoughts on the subject were that corporate executives should not be concerned with "socialist" beliefs such as social responsibility, but instead on increasing profits.<sup>10</sup>

Friedman's article caused a stir among the growing CSR movement. Several management scholars argued about the importance of moving beyond the economic responsibility of a business and they should include areas relevant to interest groups besides the profit maximization for stockholders. These other responsibilities are described in Archie Carroll's Pyramid of CSR which include the Economic, Legal, Ethical and Philanthropic Responsibilities.



Figure 2.13. Carroll's CSR Pyramid gives a visual understanding of the foundations for socially responsible organizations.

## 2.6.3 Stakeholders and CSR

The concept of CSR is derived from stakeholder theory, which requires the organization to consider their internal and external stakeholders. CSR requires organizations to take care of all stakeholders that are in some way connected to them. The CSR practices require organizations to act in a broader perspective and view the society as a whole.

CSR also enables organizations to enhance their corporate reputation through the building of relationships with the various stakeholders, including society and interest groups. It also makes certain that the organization is not perceived as an outcast in terms of social development and environmental care.



Figure 2.14. Stakeholders are a central element of CSR practices.

Michael Porter and Mark Kramer proposed in 2006 that CSR should be linked to core business objectives that are leveraged for increased economic and social values. They encouraged corporations to analyze their opportunities for social responsibility using the same frameworks that guide their core business choices.

Corporations such as Whole Foods Market, Toyota, and Volvo discovered that CSR and sustainability can be a compelling source of innovation and competitive advantage instead of cost, a limitation, or philanthropy.

## Video

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### 2.6.4 Benefits of Corporate Social Responsibility

#### Community Engagement

A company committed to CSR supports initiatives that benefit the communities in which they operate. Companies engage in philanthropic ventures or employees volunteer for community-building non-profits. Overall, a commitment to CSR helps the community surrounding the corporation, and could also have a larger impact on the world, particularly if multiple companies commit to it.

## Video

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The Body Shop was one of the first companies to publish a full report on their CSR initiatives. Anita Roddick, founder the Body Shop (1976), was committed to protecting the environment, as well as protecting the rights of both humans and animals. Roddick even created an organization charity called The Roddick foundation, which helps fund those who can affect social change on a measurable scale. In 1987, The Body Shop launched a community trade program fair trade program, that emphasized their commitment to trading fairly with suppliers in exchange for offering good trading practices.

#### Brand Differentiation

Brand differentiation was one of the primary reasons companies got behind the CSR movement. During the past 20 years, CSR has become a norm and it has become harder for large corporations to use to differentiate a brand.

Coke and Pepsi, who have been engaged in the "Cola Wars" for decades, are constantly looking to grab as much market share as they can from each other. Both companies are adopting similar approaches to CSR regarding zero net water usage and offer sustainable packaging for their water bottles.

### **Video**

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### **Video**

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## **Cost Savings**

Companies can save money and make your business more efficient by engaging in sustainability practice that can reduce waste or optimize energy savings.

In 2012 Nike announce the long-expected achievement of the Nike Flyknit Technology. After 10 years of research, Nike was able to develop a technology to improve performance while minimizing waste. In only

four years, Nike Flyknit technology reduced nearly 3.5 million pounds of waste.

## **Employee Engagement**

### **Video**

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Studies show that increasing numbers in the workforce want to be part of a company that impacts the world around them. CSR plays an important role in enhancing the company reputation among its employees and subsequently boosts their motivation and engagement.

In 2017 Timberland celebrated the 25 anniversary of the Path of Service Volunteer program, which was created to give employees paid time to serve their communities and encourage them to become proactive agents of service in and out of the office.

## **Customer Engagement**

Using CSR can help companies to engage with customers in different ways that could return in customer loyalty. With the increasing concerns over the growing environmental and societal issues, modern consumers are realizing the importance of responsible consumption and they are ready to engage with socially responsible businesses.

### **Video**

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Ben and Jerry's has spent 40 years making "the best possible ice cream in the nicest way possible". Ben Cohen and Jerry Greenfield named an important part of the mission "linked prosperity"—the idea that everyone and everything the company touches should benefit from its profits. Their involvement in social activism was meant to attack the roots of the social problems and their customers become loyal not only because of the quality of their products but also because of their commitment to solving social and environmental issues in meaningful ways.

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