SOCIAL RESPONSIBILITY AND ETHICS

Social Responsibilities of Strategic Decision-Makers

Bamford, Hoffman, Hunger, and Wheelen (2018) cited Milton Friedman and Archie Carroll's two (2) contrasting views of the responsibilities of business firms to society as follows:

- **Friedman's traditional view of business responsibility.** Milton Friedman argued against the concept of social responsibility as a function of the business. According to Friedman, a businessperson who acts "responsibly" by cutting the price of the firm's product to aid the poor, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, is spending the shareholder's money for general social interest. Even if the businessperson has shareholder permission or even encouragement to do so, he or she is still acting from motives other than economic and may, in the long run, harm the very society the firm is trying to help. By taking on the burden of these social costs, the business becomes less efficient resulting to price increases to pay for the increased costs or postponement of investments in new activities and research. These results negatively affect the long-term efficiency of a business. Friedman thus referred to the social responsibility of business as a "fundamentally subversive doctrine" and stated that:

  "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

  <u>EXAMPLE:</u> The management of a global corporation is guilty of misusing corporate assets and negatively affecting shareholder wealth. The millions spent on tree planting could have been invested in new product development or given back as dividends to the shareholders.

- **Carroll's four (4) responsibilities of business.** Archie Carroll proposed that maximization of profits cannot be the primary obligation of a business. He proposed that the business organizations have four (4) responsibilities as follows:

  1. **Economic.** A business organization has the responsibility to produce goods and services of value to society so that the firm may repay its creditors and increase the wealth of its shareholders.
  2. **Legal.** A business organization has legal responsibilities that are defined by governments in laws that management is expected to obey. For example, U.S. business firms are required to hire and promote people based on their credentials rather than to discriminate on non-job-related characteristics such as race, gender, or religion.
  3. **Ethical.** A business organization has the responsibility to follow the generally held beliefs about behavior in a society. For example, society generally expects firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organization's management fails to act according to generally prevailing ethical values.
  4. **Discretionary.** A business organization has responsibilities that are purely voluntary on the part of the corporation. Examples are philanthropic contributions, training

unemployed people, and providing day-care centers. The difference between ethical and discretionary responsibilities is that few people expect an organization to fulfill discretionary responsibilities, whereas many expect an organization to fulfill ethical ones.

Carroll listed these four (4) responsibilities in order of priority. A business firm must first make a profit to satisfy its economic responsibilities. To continue in existence, the firm must follow the laws, thus fulfilling its legal responsibilities. Having satisfied the two (2) basic responsibilities, according to Carroll, a firm should look to fulfilling its social responsibilities. Social responsibility, therefore, includes both ethical and discretionary, but not economic and legal responsibilities. A firm can fulfill its ethical responsibilities by taking actions that society tends to value but has not yet put into law. When ethical responsibilities are satisfied, a firm can focus on discretionary responsibilities—purely voluntary actions that society has not yet decided to expect from every company.

<u>EXAMPLE:</u> When Cisco Systems decided to dismiss 6,000 fulltime employees, it provided a novel severance package. Those employees who agreed to work for a local nonprofit organization for a year would receive one-third of their salaries plus benefits and stock options and be the first to be rehired. Nonprofit organizations were delighted to hire such highly qualified people, and Cisco was able to maintain its talent pool for when it could hire once again.

- **Peter Drucker's view of social responsibility.** Peter Drucker suggests that companies should ensure that their social responsibilities also become business opportunities. Cohen (2010) cited that Drucker highlights considerations for workers that are part of the responsibility of a corporate leader just as much as the profits, survival, and growth of the business or organization. Therefore, he taught that these were the social responsibilities of businesses. As a result, Drucker was also called a pioneer of business social responsibility. The management thoughts of Drucker about corporate social responsibility were summarized as follows:

    1. **Government cannot solve many social problems.** Drucker analyzed social issues and found increasing disenchantment with the government's ability to successfully initiate or successfully implement social programs. This suggests that companies may tailor their program to help eradicate existing social problems while maintaining their business stability and profitability.
    2. **The corporate mission comes first.** According to Drucker, the organization's first responsibility must always be to its own mission regardless of other factors. The first "social responsibility" of the business is to make a profit sufficient to cover operational costs in the future. The logic in this is that if the organization failed in its own goals because of misallocation of time, resources, or personnel in attempting to fulfill a particular social responsibility, not only would it be prevented from solving any particular social problem, or future social problems, but would fail society in the organization's mission and waste society's resources. Once the organization failed in its primary mission, its initiative for social responsibility would go out of existence. So, if this basic

"social responsibility" of fulfilling the organization's purpose is not met, no other "social responsibility" can be met either.

3. **The unlimited liability clause.** An unlimited liability clause means that the organization taking action assumes the responsibility for the future outcome of their initiatives. Most advocates and consumers view high prices as a social responsibility which must be addressed and reduced. For instance, Walmart's low prices brought profit, success, and cheers from consumers, which eventually brought worldwide legal problems, governmental interference, and bad press. Walmart was accused of forcing out smaller local business which could not compete with Wal-Mart's low prices. Wal-Mart kept prices down partly by closely controlling and limiting the pay and benefits of its employees. This scenario suggests that companies must also consider establishing a balance of responsibilities for all stakeholders.

Stakeholder Analysis

A stakeholder is a person with an interest or concern on a particular business undertaking. Stakeholder analysis involves the identification and evaluation of corporate stakeholders. Bamford et. al (2018) cited that the process in analyzing stakeholders can be accomplished by following a three-step process as follows:

1. **Identify primary stakeholders.** The primary stakeholders are those who have a direct connection with the corporation and who have sufficient bargaining power to affect corporate activities directly. These include customers, employees, suppliers, shareholders, and creditors.
2. **Identify secondary stakeholders.** The secondary stakeholders are those who have only an indirect stake in the corporation but who are also affected by corporate activities. These usually include nongovernmental organizations, activists, local communities, trade associations, competitors, and the government.
3. **Analyze stakeholder influence over strategic decisions.** The primary decision criteria used by management is generally economic, which is why secondary stakeholders may be ignored or discounted as unimportant. For a firm to fulfill its ethical or discretionary responsibilities, it must seriously consider the needs and wants of its secondary stakeholders in any strategic decision.

Ethical Decision-Making

According to Bamford et al. (2018), ethics is defined as the consensually accepted standards of behavior for an occupation, a trade, or a profession. Morality, in contrast, constitutes one's rules of personal behavior based on religious or philosophical grounds. Law, on the other hand, refers to formal codes that permit or forbid certain behaviors and may or may not enforce ethics or morality (Bamford et al., 2018). Given these definitions, a comprehensive statement of ethics to use in making decisions for a specific occupation, trade, or profession is important to be identified by all corporations or businesses. As a starting point for such a code of ethics is to consider the three (3) basic views on ethical behavior as follows:

1. **Utilitarian approach.** This approach proposes that actions and plans should be judged by their consequences. Therefore, people should behave in a way that will produce the greatest benefit to society and produce the least harm or the lowest cost. A problem with this approach is the difficulty in recognizing all the benefits and costs of any particular decision. Bamford et al. (2018)

stated that research reveals that CEOs prioritize only the stakeholders who have the most power (ability to affect the company), legitimacy (legal or moral claim on company resources), and urgency (demand for immediate attention). It is, therefore, likely that only the most obvious stakeholders will be considered while others are ignored (Bamford et al., 2018).

2. **Individual rights approach.** This approach proposes that human beings have certain fundamental rights that should be respected in all decisions. A particular decision or behavior should be avoided if it interferes with the rights of others. A problem with this approach is in defining "fundamental rights." Some constitution includes a "bill of rights" or list of important rights to a country's citizens, that may or may not be accepted throughout the world. The approach can also encourage selfish behavior when a person defines a personal need or want as a "right."
3. **Justice approach**. This approach proposes that decision-makers can be equitable, fair, and impartial in the distribution of costs and benefits to individuals and groups. It follows the principles of distributive justice wherein people who are similar on relevant dimensions such as job seniority should be treated in the same way. In addition, it follows fairness wherein liberty should be equal for all persons. The justice approach can also include the concepts of retributive justice wherein punishment should be proportional to the offense and compensatory justice wherein wrongs should be compensated in proportion to the offense.

References

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