

CHAPTER 9

Strategy, Ethics, and Social Responsibility

Corporations are economic entities, to be sure, but they are also social institutions that must justify their existence by their overall contribution to society.

—Henry Mintzberg, Robert Simons, and Kunal Basu, professors

We don't think of ourselves as do-gooders or altruists. It's just that somehow we're trying our best to be run with some sense of moral compass.....

—Craig Newmark, Founder of Craigslist

The time is always right to do what is right.

—Martin Luther King, Jr., Civil rights activist and humanitarian

It takes many good deeds to build a good reputation and only one bad one to lose it.

—Benjamin Franklin

But I'd shut my eyes in the sentry box so I didn't see nothing wrong.

—Rudyard Kipling

Clearly, in capitalistic or market economies, top-level managers of privately owned companies are responsible and accountable for operating the enterprise profitably and acting in shareholders' best interests; management's fiduciary duty to operate the enterprise in a manner that creates value for shareholders is not a matter for serious debate. Just as clearly, a company and its personnel are duty-bound to obey the law and comply with governmental regulations. But does a company also have a duty to go beyond legal requirements and hold all company personnel responsible for conforming to high ethical standards? Does a company have an obligation to be a good corporate citizen? Should a company display a social conscience by devoting a portion of its resources to improving the quality of life in the communities where it operates and in society at large? How far should a company go in protecting the environment, conserving natural resources for use by future generations, and ensuring its operations do not ultimately endanger the planet?

This chapter focuses on whether a company, in the course of trying to craft and execute a strategy that delivers value to both customers and shareholders, also has a duty to (1) act in an ethical manner, (2) be a committed corporate citizen and allocate some of its financial and human resources to improving the well-being of employees, the communities in which it operates, and society as a whole, and (3) screen its strategic initiatives and operating practices for possible negative effects on the environment and future generations of the world's population.

What Do We Mean by Business Ethics?

Ethics concerns the principles and standards of right and wrong conduct. **Business ethics** concerns the application of ethical principles and standards to the actions and decisions of business organizations and the conduct of their personnel.¹ *Ethical principles in business are not materially different from ethical principles in general.* Why? Because 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. If dishonesty is considered unethical and immoral, then dishonest behavior in business—whether it relates to customers, suppliers, employees or shareholders—qualifies as equally unethical and immoral. If being ethical entails not deliberately harming others, then businesses are ethically obligated to recall a defective or unsafe product, regardless of the cost. If society deems bribery unethical, then it is unethical for company personnel to make payoffs to government officials to win government contracts or bestow gifts and other favors on prospective customers to win or retain their business. In short, ethical behavior in business situations requires adhering to generally accepted norms about right and wrong. This means that *all* company personnel have an obligation—indeed, a duty—to conduct their assigned piece of the company's business in an ethical and honorable manner.

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.

Where Do Ethical Standards Come From?

Notions of right and wrong, fair and unfair, moral and immoral, ethical and unethical are present in all societies and cultures. But there are three distinct schools of thought about the extent to which ethical standards travel across cultures and whether multinational companies can apply the same set of ethical standards in any and all locations where they operate.

The School of Ethical Universalism

According to the school of **ethical universalism**, the most fundamental concepts of what is right and what is wrong are *universal* and transcend most all cultures, societies, and religions.² For instance, being truthful (or not lying or not being deliberately deceitful) strikes a chord of what's right in the people of all nations. Likewise, demonstrating integrity of character, not cheating, and treating people with courtesy and respect are concepts that resonate across countries, cultures, and religions. In most societies, people would concur 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. These universal ethical traits and behaviors are considered virtuous and represent standards of conduct that a good person is supposed to believe in and to observe. Thus, adherents of the school of ethical universalism maintain *it is entirely appropriate to expect all members of society (including all personnel of all companies worldwide) to conform to universal ethical standards.*³

CORE CONCEPT

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

The strength of ethical universalism is that it draws upon the collective views of multiple societies and cultures to put some clear boundaries on what constitutes ethical and unethical business behavior no matter what country or culture a company or its personnel are operating in. This means in those instances where basic moral standards do not vary significantly according to local cultural beliefs, traditions, religious convictions, or time and circumstance, a multinational company can develop a single code of ethics and apply it more or less evenly across its worldwide operations.⁴ It can avoid the slippery slope that comes from having different ethical standards for different company personnel depending on where in the world they are working.

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 ethically right and wrong in the conduct of business activities. Indeed, differing religious beliefs, historic traditions and customs, core values and beliefs, and behavioral norms across countries and cultures frequently give rise to different standards about what is fair or unfair, moral or immoral, and ethically right or wrong. For instance, European and American managers often establish standards of business conduct and ethical behavior that protect such core human rights as freedom of movement and residence, freedom of speech and political opinion, fairness of treatment, equal protection under the law, and the right to privacy. In China, where societal commitment to basic human rights is weak, human rights considerations play a small role in determining what is ethically right or wrong in conducting business activities. In Japan, managers believe showing respect for the collective good of society is an important ethical consideration. In Muslim countries, managers typically apply ethical standards compatible with the teachings of Mohammed. Consequently, the school of ethical relativism holds that a “one-size-fits-all” template for judging the ethical appropriateness of business actions and the behaviors of company personnel is totally inappropriate. Rather, the underlying thesis of ethical relativism is that whether certain actions or behaviors are ethically right or wrong depends on what a local country or culture decides is ethically right or wrong—in other words, when there are cross-country or cross-cultural differences in ethical standards, it is appropriate for *local ethical standards to take precedence over ethical standards elsewhere*.⁵ This need to contour local ethical standards to fit local customs, local notions of fair and proper individual treatment, and local business practices gives rise to multiple sets of ethical standards. In a world of ethical relativism, there are few absolutes when it comes to business ethics, and thus few ethical absolutes for consistently judging the ethical correctness of a company’s conduct in various countries and markets.

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 depend on the prevailing local ethical standards.

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 and definitive guide to ethical behavior. But this poses some challenging ethical dilemmas. Consider the following two examples.

The Use of Underage Labor In industrialized nations, the use of “underage” workers is considered taboo. Social activists are adamant that child labor is unethical, that legislation mandating compulsory education is needed in all countries across the world, and that companies should neither employ children under the age of 18 as full-time employees nor source any products from foreign suppliers that employ underage workers. Many countries have passed legislation forbidding the use of underage labor or, at a minimum, regulating the employment of workers under the age of 18. However, in Ethiopia, Zimbabwe, Pakistan, Afghanistan, Somalia, Burma, North Korea, Yemen, Bangladesh, Botswana, Sri Lanka, Ghana, Nigeria, Sudan, and 45 other countries, where poverty rates are very high, children are typically viewed as potential, even necessary, workers.⁶ In India, China, Russia and much of Africa, child labor laws are poorly enforced.⁷ Going into 2016, there were about 150 million child laborers age 5 to 17 and some 85 million of these were engaged in hazardous work.⁸

While exposing children to hazardous work, forced labor, and long work hours is unquestionably deplorable, the fact remains that poverty-stricken families in many poor countries cannot subsist without the work efforts of young family members; sending their children to school instead of having them participate in the workforce is not a realistic option. Hence, greatly restricting the permissible kinds of employment of children in poor countries (especially those in the 12–17 age group)—owing to strong pressures from well-meaning activist groups and government organizations whose systems of values and beliefs prompt them to work toward banning many forms of child labor—risks the unintended consequences of forcing children in impoverished families to seek work in “hidden” parts of the economy of their countries or be out on the street begging or even reduced to trafficking in drugs or engaging in prostitution.⁹ To the extent that such unintended consequences occur, have the best interests of underage workers, impoverished families, and society in general been well served? On the other hand, notwithstanding the principle of ethical relativism, it is logical quicksand to contend that child labor is unethical in industrialized countries (because it is contrary to local custom) yet is ethically permissible in impoverished countries where child labor is common practice. It would seem ethically inconsistent to declare the employment of underage labor to be an unethical business practice in one locality and an ethical business practice in another location simply because of differing local customs.

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 it is ethically permissible in countries where the use of child labor is common practice.

The Payment of Bribes and Kickbacks A particularly thorny area facing multinational companies is the degree of cross-country variability in paying bribes.¹⁰ In many countries, it is common for companies to pay bribes to government officials to win a government contract, obtain a license or permit, or facilitate an administrative ruling. In some developing nations, it is difficult for any foreign or domestic company to move goods through customs without paying off low-level officials.¹¹ Senior managers in China and Russia often use their power to obtain kickbacks when they purchase materials or other products for their companies.¹² Likewise, in many countries it is normal to make payments to prospective customers to win or retain their business. Some people stretch to justify the payment of bribes and kickbacks on grounds that bribing government officials to get goods through customs or giving kickbacks to customers to retain their business or win new orders is simply a payment for services rendered, in the same way that people tip for service at restaurants.¹³ But while this argument is a clever and pragmatic way to rationalize viewing bribes as a normal and maybe unavoidable cost of doing business, it rests on moral quicksand.

Companies that forbid the payment of bribes and kickbacks in their codes of ethical conduct and that are serious about enforcing this prohibition face a particularly vexing problem in those countries where bribery and kickback payments are an entrenched local custom and are not considered unethical.¹⁴ Refusing to pay bribes or kickbacks in these countries (to comply with the company’s code of ethical conduct) is often tantamount to losing business to competitors willing to make such payments—an outcome that penalizes ethical companies and ethical company personnel (who may suffer lost sales commissions or bonuses). But, on the other hand, blinking an eye at a company’s code of ethical conduct and going along with the payment of bribes or kickbacks not only undercuts enforcement of and adherence to the company’s code of ethics but can also risk breaking the law. The Foreign Corrupt Practices Act (FCPA) prohibits U.S. companies from paying bribes to government officials, political parties, political candidates, or others in all countries where they do business. The Organization for Economic Cooperation and Development (OECD) has anti-bribery standards that criminalize the bribery of foreign public officials in international business transactions—all 35 OECD member countries and 6 nonmember countries have adopted these standards.¹⁵

Despite laws forbidding bribery to secure sales and contracts, the practice persists. Siemens, one of the world’s largest corporations and headquartered in Munich, Germany, was fined \$1.6 billion by the U.S. and German governments for paying more than \$800 million to more than 4,000 well-placed government officials in Asia, Africa, Europe, the Middle East, and Latin America between 2001 and 2007 to help secure huge public works contracts; moreover, there was evidence that bribery of public officials was a core element of Siemens’ strategy.

Hewlett-Packard paid \$16.25 million to settle allegations that it bribed Texas school officials with expensive gifts in exchange for federally-funded contracts that paid for Internet connections for schools and libraries. Daimler AG, the maker of Mercedes-Benz vehicles, paid \$185 million in fines to settle charges that it used secret bank accounts to make 200 illicit payments totaling more than \$56 million to foreign officials in 22 countries between 1998 and 2008. In 2014, Alcoa agreed to pay \$384 million to settle charges that it used bribes to lock in lucrative contracts in Bahrain. In 2013, the Ralph Lauren Corporation agreed to forfeit illicit profits made due to bribes paid by a subsidiary in Argentina. An OECD study of 427 criminal proceedings for bribery in 41 European countries during the period February 1999–December 2015 revealed that fines exceeding \$5 billion were imposed on 397 individuals and 133 companies; going into 2016, some 300 investigations in 28 countries were ongoing.¹⁶

Using the Principle of Ethical Relativism to Create Ethical Standards Is Problematic for Multinational Companies

Relying upon the principle of ethical relativism to determine what is ethically right or wrong poses major problems for multinational companies wanting to address the real issue of what ethical standards to enforce companywide. It is a slippery slope indeed to resolve conflicting ethical standards for operating in different countries. How can a multinational company, standing on the principle of ethical relativism, declare it ethically permissible for company personnel to pay bribes and kickbacks in countries where such payments are customary but ethically impermissible to make such payments in countries where bribes and kickbacks are either not customary or illegal?

Managers in multinational enterprises have to figure out how to navigate the gray zone that arises when their company operates in two or more countries or cultures with differing customs and ethical standards. Having multiple standards that vary by locale is equivalent to having no standard.

Business leaders who rely upon the principle of ethical relativism to justify conflicting ethical standards for operating in different countries have little moral basis for establishing or enforcing ethical standards companywide. Rather, when a company's ethical standards vary from country to country, the clear message being sent to employees is that the company has no ethical standards or convictions of its own and prefers to let its standards of ethically right and wrong be governed by the customs and practices of the countries in which it operates. *Applying multiple sets of ethical standards without a higher-order moral compass is scarcely a basis for holding company personnel to high standards of ethical behavior.*

Ethics and Integrative Social Contracts Theory

Integrative social contracts theory provides yet a middle position between the opposing views of universalism (that the same set of ethical standards should apply everywhere) and relativism (that ethical standards should be governed by local custom and practice).¹⁷ According to this theory, the ethical standards a company should try to uphold are governed both by (1) a limited number of universal ethical principles widely recognized as putting legitimate ethical boundaries on actions and behavior in *all* situations and (2) the circumstances of local cultures, traditions, and shared values that further prescribe what constitutes ethically permissible behavior and what does not. However, *universal ethical norms always take precedence over local ethical norms*. In other words, universal ethical principles apply in those situations where most all societies—endowed with rationality and moral knowledge—have common moral agreement on what actions and behaviors fall inside the boundaries of what is right and which ones fall outside. *These mostly uniform and universal agreements about what is morally right and wrong form a “social contract” or contract with society that is binding on all*

CORE CONCEPT

According to **integrated 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. So long as the boundaries of this social contract are observed, there is legitimate room for local cultures or groups to prescribe what other actions may or may not be ethically permissible. However, according to integrated social contracts theory, *adherence to universal or “first-order” ethical norms must always take precedence over local or “second-order” norms.*

individuals, groups, organizations, and businesses in terms of establishing right and wrong and drawing the line between ethical and unethical behaviors.

But these universal ethical principles or norms nonetheless still leave some “moral free space” for the people in a particular country (or local culture or even a company) to make specific interpretations of what other actions may or may not be permissible within the bounds defined by universal ethical principles. Hence, while firms, industries, professional associations, and other business-relevant groups are “contractually obligated” to society to observe universal ethical norms, they have the discretion to go beyond these universal norms and specify other behaviors that are out of bounds and place further limitations on what is considered ethical. Both the legal and medical professions have standards regarding what kinds of advertising are ethically permissible and what kinds are not. Food products companies are beginning to establish ethical guidelines for judging what is and is not appropriate advertising for inherently unhealthy food products that may cause dietary or obesity problems for people who eat them regularly or consume them in large quantities.

The strength of integrated social contracts theory is that it 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 ethical norms. But it is just as indisputable that *some ethical norms are more authentic or universally applicable than others, meaning that in many instances of cross-country differences one side may be more “ethically correct” or “more right” than another.* In such instances, resolving cross-cultural differences in what is ethically permissible versus what is not entails applying universal or “first-order” ethical norms and overriding the local or “second-order” ethical norms. A good example of the application of integrated social contracts theory is the payment of bribes and kickbacks. Yes, bribes and kickbacks are common in some countries, but does this justify paying them? *Just because bribery flourishes in a country does not mean it is an authentic or legitimate ethical norm.* Virtually all of the world’s major religions (Buddhism, Christianity, Confucianism, Hinduism, Islam, Judaism, Sikhism, and Taoism) and all moral schools of thought condemn bribery and corruption.¹⁸ Therefore, a multinational company might reasonably conclude that there is a universal ethical principle to be observed here—one of refusing to condone bribery and kickbacks on the part of company personnel no matter what the local custom is and no matter what the sales consequences are.

The Principles of Integrated Social Contracts Theory Work Well for Multinational Companies

Integrated social contracts theory offers clear guidance for the managers of multinational companies in resolving cross-country ethical differences: Those parts of the company’s code of ethics that involve universal ethical norms must be enforced worldwide, but within these boundaries there is room for company personnel to engage in behaviors that conform to local ethical standards. Allowing room for the observance of local or second-order ethical norms is a pragmatic and defensible middle-ground—it means a multinational enterprise does not have to adopt the role of standard-bearer of moral truth and impose inflexible ethics standards worldwide no matter what. And it avoids the fatal weakness of using the principle of ethical relativism to set ethical standards of right and wrong that are totally governed by the customs and practices of the countries in which it operates and thus give company personnel a license to engage in behavior that clearly violate universal ethical norms.

The Three Categories of Management Morality

Three categories of managers stand out with regard to ethical and moral principles in business affairs:¹⁹

- *The moral manager.* Moral managers are dedicated to high standards of ethical behavior, both in their own actions and in their expectations of how the company’s business is to be conducted. They see themselves as stewards of ethical behavior and believe it is important to pursue success in business within the confines of both the letter and the spirit of what is ethical and legal. They typically regard complying with the law as an ethical minimum, and they operate well above what the law requires.

- *The immoral manager:* Immoral managers have no regard for so-called ethical standards in business and pay no attention to ethical principles in making decisions and conducting the company's business. Their philosophy is that good businesspeople cannot spend time watching out for the interests of others and agonizing over "the right thing to do" from an ethical perspective. In the minds of immoral managers, nice guys come in second and the competitive nature of business requires that you either trample on others or get trampled yourself. They believe what really matters is the single-minded pursuit of their own best interests. They are living examples of capitalistic greed, caring only about their own or their organization's gains and successes. Immoral managers may even be willing to short-circuit legal and regulatory requirements if they think they can escape detection. And they are always on the lookout for legal loopholes and creative ways to get around rules and regulations that block or constrain actions they deem in their own or their company's self-interest. Immoral managers are thus the bad guys. They have few scruples, little or no integrity, and are willing to do most anything they believe they can get away with. It doesn't bother them much to be seen by others as wearing the black hats.
- *The amoral manager:* Amoral managers believe 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 government regulations, they should not be seen as unethical. Amoral managers 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, even though observing some higher ethical considerations may be appropriate in life outside of business. Their concept of right and wrong tends to be lawyer-driven—"How much can we get by with?" and "What are the risks of going ahead even if a particular action is borderline?"

CORE CONCEPT

Amoral managers believe that businesses 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 are governed entirely by prevailing laws and regulations, not by societal concepts of right and wrong.

By some accounts, the population of managers is said to be distributed among all three types in a bell-shaped curve, with immoral managers and moral managers occupying the two tails of the curve, and amoral managers occupying the broad middle ground.²⁰ Furthermore, within the population of managers, there is experiential evidence to support that while the average manager is amoral most of the time, he or she may slip into a moral or immoral mode on occasion, based on a variety of impinging factors and circumstances.

Evidence of Managerial Immorality in the Global Business Community

There is considerable evidence that a sizable majority of managers are either amoral or immoral. Ongoing research by Berlin-based Transparency International shows corruption among public officials and in business transactions is widespread across the world; the 2016 global average across 176 countries and territories was 43, below the midpoint of the scale of 0 (highly corrupt) to 100 (very clean).²¹ Table 9.1 shows some of the countries where public corruption was perceived to be lowest and highest. A global community where corruption is so prevalent suggests that all too few companies ground their strategies on exemplary ethical principles or insist that company personnel measure up to high ethical standards. And, as many business school professors have noted, there are considerable numbers of amoral business students in our classrooms. So the task of rooting out shady and corrupt business practices and creating an ethically strong global business climate is certain to be arduous and time-consuming.

Table 9.1 Corruption Perceptions Index, Selected Countries, 2016

(The CPI scores are based on a 100-point scale, where 100 = very clean and 0 = highly corrupt))

Country	2016 CPI Score	Country	2016 CPI Score	Country	2016 CPI Score
Denmark	90	Japan	72	Saudi Arabia	46
New Zealand	90	France	69	South Africa	45
Finland	89	Chile	66	Greece	44
Sweden	88	Israel	64	Turkey	41
Switzerland	86	Poland	62	India	40
Norway	85	Portugal	62	China	40
Singapore	84	Taiwan	61	Pakistan	32
Netherlands	83	Spain	58	Mexico	30
Canada	82	Czech Republic	55	Russia	29
Germany	81	South Korea	53	Iran	29
United Kingdom	81	Slovakia	51	Iraq	17
Australia	79	Croatia	49	Afghanistan	15
Hong Kong	77	Malaysia	49	Libya	14
United States	74	Hungary	48	Syria	13
Ireland	73	Italy	47	North Korea	12

Source: Transparency International, 2014 *Corruption Perceptions Index*, <http://transparency.org/cpi2014/results> (accessed March 10, 2017).

What Are the Drivers of Unethical Strategies and Business Behavior?

The apparent pervasiveness of immoral and amoral businesspeople is one obvious reason why there is unethical behavior in business dealings and why certain elements of a company's strategy may be unethical. But apart from "the business of business is business, not ethics" kind of thinking, there are three other main drivers of unethical business behavior:²²

- *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. Driven by their ambitions, they exhibit few qualms in skirting the rules or doing whatever is necessary to achieve their goals. The first and only priority of such corporate "bad apples" is to look out for their own best interests, and if climbing the ladder of success means having few scruples and ignoring others' welfare, so be it. In theory, a company's board of directors is duty bound to oversee corporate executives' behavior and call an immediate halt to any unethical strategies or conduct. In practice, however, *the oversight of corporate boards often proves faulty*, enabling the unscrupulous pursuit of greed and self-serving behavior on the part of corporate executives to go undetected or unchecked. A particularly egregious example of defective oversight was the failure to shut down the consciously unethical strategies at many banks and mortgage companies that were boosting the fees they earned on home mortgages by deliberately lowering lending standards and approving so-called "subprime loans" for homebuyers whose incomes were insufficient to make their monthly mortgage payments.
- *Heavy pressures on company managers to meet or beat performance targets.* When key personnel at companies are continuously scrambling to meet the quarterly and annual sales and profit expectations of investors and financial analysts or to hit other ambitious performance targets, they often feel

enormous pressure to *do whatever it takes* to protect their reputation for delivering good results. As the pressure builds, they start stretching the rules further and further, until the limits of ethical conduct are overlooked.²³ Once people cross ethical boundaries to “meet or beat their numbers,” the threshold for making more extreme ethical compromises becomes lower.

- *A company culture that puts profitability and good business performance ahead of ethical behavior:* When a company’s culture spawns an ethically corrupt or amoral work climate, people have a company-approved license to ignore “what’s right” and engage in almost any behavior or employ almost any strategy they think they can get away with. Such cultural norms as “no one expects strict adherence to ethical standards,” “everyone else does it,” and “it is okay to bend the rules to get the job done” permeate the work environment.²⁴ At such companies, ethically immoral or amoral people are certain to play down observance of ethical strategic actions and business conduct. Moreover, cultural pressures to use unethical means should circumstances dictate can prompt otherwise honorable people to behave unethically.

Why Should Company Strategies Be Ethical?

There are two reasons why a company’s strategy should be ethical: (1) 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 and (2) because an ethical strategy is good business and in the self-interest of shareholders.

The Moral Case for an Ethical Strategy

The bottom line here is *that pursuing ethically principled strategic actions is morally correct and represents “the right thing to do,”* whereas *undertaking unethical strategic actions is morally incorrect and “the wrong thing to do.”* Moreover, it reflects well on a manager’s character to insist that every strategic action be able to pass moral scrutiny, and it reflects badly on a manager’s character to initiate or condone strategic actions that are shady and outside the boundaries of what qualifies as ethical. Ultimately, whether a company ends up pursuing an ethical or unethical strategy depends on the character of the managers making the decisions of which alternatives to pursue. Ethical strategy making is generally the product of managers who are of strong moral character (that is, who are trustworthy, have integrity, and truly care about conducting the company’s business honorably). Managers with high ethical principles and a strong sense of right and wrong are usually advocates of a corporate code of ethics and strong ethics compliance, and they are genuinely committed to upholding corporate values and ethical business practices. They walk the talk in displaying the company’s stated values and living up to its business principles and ethical standards.

Managers do not dispassionately assess what strategic course to steer—how strongly committed they are to observing ethical principles and standards definitely comes into play in making strategic choices. Ethical strategy making is generally the product of managers who are of strong moral character (that is, who are trustworthy, have integrity, and truly care about conducting the company’s business honorably). Managers with high ethical principles and a strong sense of right and wrong are usually advocates of a corporate code of ethics and strong ethics compliance, and they are genuinely committed to upholding corporate values and ethical business practices. They walk the talk in displaying the company’s stated values and living up to its business principles and ethical standards. They understand there’s a big difference between adopting values statements and codes of ethics that serve merely as window dressing and those that truly paint the white lines for a company’s actual strategy and business conduct. As a consequence, ethically strong managers consciously opt for strategic actions that are in accord with ethical principles and standards—they display no tolerance for strategies with ethically controversial components.

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.”

Ethically weak or immoral managers are the ones most likely to adopt or condone strategies that do not meet ethical standards—and they do so because of flawed character traits, most specifically the unwillingness or inability to distinguish between right and wrong.

The Business Case for Ethical Strategies

While it is undoubtedly true that unethical business behavior may sometimes contribute to higher company profits (*so long as such behavior escapes public scrutiny*), pursuing unethical strategies and tolerating unethical conduct damages a company's reputation and has costly consequences that injure shareholders. Figure 9.1 shows the wide-ranging costs a company can incur when unethical behavior is discovered, the wrongdoings of company personnel are headlined in the media, and it is forced to make amends for its behavior. The more egregious a company's ethical violations, the bigger the hit to its bottom line, and the greater the damage to its reputation (and to the reputations of the company personnel involved). In high-profile instances, the costs of ethical misconduct can easily run into the hundreds of millions and even billions of dollars, especially if they provoke widespread public outrage and many people were harmed.

Conducting business in an ethical fashion is in a company's enlightened self-interest. While one can point to companies 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 businesspeople to do whatever they think they can get away with.

Figure 9.1 The Costs Companies Incur When Ethical Wrongdoing Is Exposed to Public View

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

Source: Adapted from Terry Thomas, John R. Schermerhorn, and John W. Dienhart, "Strategic Leadership of Ethical Behavior."

The fallout of a company's ethical misconduct goes well beyond just the costs of making amends for the misdeeds, most particularly the adverse short-term and intermediate-term impact on a company's reputation. Buyers shun companies caught up in highly publicized ethical scandals. Companies with tarnished reputations have difficulty in recruiting and retaining talented employees; indeed, many people consider a company's ethical reputation when deciding whether to accept a job offer.²⁵ Most ethically upstanding people are repulsed by a work environment where unethical behavior is condoned; they don't want to get trapped in a compromising

situation, nor do they want their personal reputations damaged by an unsavory employer's actions. Creditors are usually unnerved by a borrower's unethical actions because of the potential business and reputational fallout and subsequent higher risk of default on repayment.

All told, a company's unethical behavior can do considerable damage to shareholders in the form of lost revenues, higher costs, lower profits, lower stock prices, and a diminished business reputation. To some significant degree, therefore, ethical strategies and ethical conduct are *good business*. Most companies understand the value of operating in a manner that wins the approval of suppliers, employees, investors, and society at large. Most businesspeople recognize the risks and adverse fallout attached to the discovery of unethical behavior. Hence, companies have an incentive to employ strategies that can pass the test of being ethical. And, even if a company's managers are not of strong moral character and personally committed to high ethical standards, they have good reason to operate within ethical bounds, if only to (1) avoid the risk of embarrassment, scandal, disciplinary action, fines, and possible jail time for unethical conduct on their part and (2) escape being held accountable for lax enforcement of ethical standards and unethical behavior by personnel under their supervision.

Shareholders suffer major damage when a company's unethical behavior is discovered and punished. Making amends for unethical business conduct is costly, and it takes years to rehabilitate a tarnished company reputation.

Connecting High Ethical Standards to the Task of Crafting and Executing Strategy

Many companies have acknowledged their ethical obligations in official codes of ethical conduct. In the United States, for example, the Sarbanes–Oxley Act, passed in 2002, requires that companies whose stock is publicly traded have a code of ethics or else explain in writing to the Securities and Exchange Commission why they do not. But the senior executives of ethically principled companies understand there's a big difference between adopting a code of ethics that is mandated window dressing (and also has the public relations benefit of making the company look good to outsiders) and those that truly paint the white lines for a company's actual strategy and the conduct of all company personnel.²⁶ They know that *the litmus test of whether a company's code of ethics is cosmetic or real is the extent to which they are embraced in crafting strategy and in how the company's daily operations are conducted*. Executives committed to high standards make a point of considering three sets of questions whenever a new strategic initiative or policy or operating practice is under review:

- Is what we are proposing to do fully compliant with our code of ethics?
- Is there any aspect of the strategy (or policy or operating practice) that gives the appearance of being ethically questionable?
- Is there anything in the proposed action that customers, employees, suppliers, stockholders, competitors, community activists, regulators, or the media might consider as ethically objectionable?

Unless questions of this nature are posed—either in open discussion or by force of habit in the minds of company managers—there's a risk that strategic initiatives and/or the way daily operations are conducted will become disconnected from the company's code of ethics. If company managers believe strongly in living up to the company's ethical standards, they will unhesitatingly reject strategic initiatives and operating approaches that don't measure up. However, in a company with cosmetic ethical standards, any linkage of the professed standards to its strategy and operating practices stems mainly from a desire to avoid the risks of approving actions that are later deemed unethical and perhaps illegal.

Strategy, Social Responsibility, and Corporate Citizenship

The idea that businesses have an obligation to foster social betterment, a much-debated topic during the past 50 years, took root in the 19th century when progressive companies in the aftermath of the industrial revolution began to provide workers with housing and other amenities. The notion that corporate executives should balance the interests of all stakeholders—shareholders, employees, customers, suppliers, the communities in which they operated, and society at large—began to blossom in the 1960s. Some years later, a group of chief executives of America’s 200 largest corporations, calling themselves the Business Roundtable, came out in strong support of the concept of corporate social responsibility:²⁷

Balancing the shareholder’s expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies (customers, employees, communities, suppliers and society at large) also must have the appropriate attention . . . [Leading managers] believe that by giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders.

Today, corporate social responsibility is a concept that resonates in Western Europe, the United States, Canada, and such developing nations as Brazil and India.

The Concepts of Social Responsibility and Good Corporate Citizenship

The essence of socially responsible business behavior is that a company should balance strategic actions to benefit shareholders against the *duty* to be a good corporate citizen. The underlying thesis is that company managers should display a *social conscience* in operating the business, and specifically take into account how management decisions and company actions affect the well-being of employees, local communities, the environment, and society at large.²⁸ Acting in a socially responsible manner thus has five components, as depicted in Figure 9.2:

CORE CONCEPT

The notion of **social responsibility** as it applies to businesses concerns a company’s *duty* to operate honorably, 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.

- *Striving to employ an ethical strategy and observe ethical principles in operating the business.* A sincere commitment to observing ethical principles is necessary simply because unethical strategies and conduct are incompatible with the concept of good corporate citizenship and socially responsible business behavior.
- *Making charitable contributions, supporting worthy organizational causes, participating in community service activities, helping to make a difference in the lives of the disadvantaged, and trying to better the quality of life in society at large.* Some companies fulfill their philanthropic obligations by spreading their efforts over a multitude of charitable and community activities—for instance, Microsoft and Johnson & Johnson support a broad variety of community art, social welfare, and environmental programs. Others prefer to focus their energies more narrowly. McDonald’s, for example, concentrates on sponsoring the Ronald McDonald House program (which provides a home away from home for the families of seriously ill children receiving treatment at nearby hospitals), preventing child abuse and neglect, and participating in local community service activities. Leading prescription drug maker GlaxoSmithKline and other pharmaceutical companies either donate or heavily discount medicines for distribution in the least-developed nations. Companies frequently reinforce their philanthropic efforts by encouraging employees to support charitable causes and participate in community affairs and by matching employee donations to charities and public service organizations.

- *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.* Social responsibility as it applies to environmental protection entails actively striving to be good stewards of the environment. This means using the best available science and technology to reduce environmentally harmful aspects of its operations *below the levels required by prevailing environmental regulations*. It also means putting time and money into improving the environment in ways that extend past a company's own industry boundaries—such as participating in recycling projects, adopting energy conservation practices, and supporting efforts to clean up local water supplies. Retailers like Walmart and The Home Depot in the United States and B&Q in the United Kingdom have pressured their suppliers to adopt stronger environmental protection practices.²⁹
- *Creating a work environment that enhances employees' quality of life and makes the company a great place to work.* Numerous companies go beyond providing the ordinary kinds of compensation and exert extra efforts to enhance their employees' quality of life at work and at home. This can include varied and engaging job assignments, career development programs, ongoing training to ensure future employability, onsite day care, flexible work schedules for single parents, workplace exercise facilities, special leaves to care for sick family members, work-at-home opportunities, gender pay equity, special safety programs, and showcase plants and offices.
- *Building a workforce that is diverse with respect to gender, race, national origin, and perhaps other aspects that different people bring to the workplace.* Most large companies in the United States have established workforce diversity programs, and some go the extra mile to ensure their workplaces are attractive to ethnic minorities and inclusive of all groups and perspectives.³⁰ The pursuit of workforce diversity can be good business—Johnson & Johnson and Pfizer believe a reputation for workforce diversity makes recruiting employees easier (talented employees from diverse backgrounds often seek out such companies). Coca-Cola, which believes that strategic success depends on getting people all over the world to become loyal consumers of the company's beverages, exerts considerable effort to build a public persona of inclusiveness for people of all races, religions, nationalities, interests, and talents. Multinational companies are particularly inclined to make workforce diversity a visible strategic component, since they recognize that respecting individual differences and promoting inclusiveness resonate well with people all around the world. Ernst & Young, one of the four largest global accounting firms, stresses its “People First” workforce diversity strategy that is all about respecting differences, fostering individuality, and promoting inclusiveness so that its more than 231,000 employees in over 150 countries can feel valued, engaged, and empowered in developing creative ways to serve the firm's clients. At some companies, the diversity initiative extends to suppliers—sourcing items from small businesses owned by women or ethnic minorities.

*The particular combination of socially responsible endeavors a company elects to pursue defines its **social responsibility strategy**.* At General Mills, a global marketer of food products, the social responsibility strategy centers on diversity and inclusion, ethics and integrity, nourishing lives (via healthier and easier-to-prepare foods), nourishing communities (via charitable donations to community causes and volunteering for community service projects), and nourishing the environment (via efforts to conserve natural resources, reduce energy and water usage, promote recycling, support for humane treatment of animals, reduction of greenhouse gas emissions, and obtaining agricultural ingredients and products from sustainable sources).³¹ At Whole Foods Market, a \$16 billion supermarket chain specializing in organic and natural foods, the social responsibility emphasis is on supporting organic farming and sustainable agriculture, recycling, sustainable seafood practices, giving employees paid time off to participate in worthy community service endeavors, and donating 5 percent of after-tax profits in cash or products to charitable causes; Whole Foods has also created the Animal Compassion Foundation to develop

CORE CONCEPT

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

natural and humane ways of raising farm animals, converted all of its vehicles to run on biofuels, and begun using biodegradable products to clean its stores. Chick-fil-A, an Atlanta-based fast-food chain with more than 2,000 outlets in 46 states, helps fund 12 foster homes, sponsors day camps and overnight camps, has a scholarship program for employees that has awarded more than \$36 million to 36,000 employees to attend colleges and universities (including 1,850 scholarships totaling \$4.9 million in 2017), conducts marriage enrichment retreats for couples, provides millions of dollars in food donations, undertakes a series of activities to protect and enhance the environment, and has a closed-on-Sunday policy to ensure every Chick-fil-A employee and restaurant operator has an opportunity to worship, spend time with family and friends, or rest and relax.³² At Unilever, a \$58 billion Anglo-Dutch manufacturer of over 400 brands of consumer products headquartered in London, there are 50 social responsibility goals, including environmental sustainability (stopping all nonhazardous waste going to landfills, halving the water waste at its 300 factories), helping to eliminate malnutrition for some 160 million of the world's children, helping to reduce the estimated 8 million people who die prematurely each year from pollution, helping curtail poverty, attacking the problems of climate change, and reducing income and gender inequality (training 5 million women).³³

Figure 9.2 The Five Components of a Social Responsibility Strategy



Source: Adapted from material in Ronald Paul Hill, Debra Stephens, and Iain Smith, "Corporate Social Responsibility: An Examination of Individual Firm Behavior," *Business and Society Review* 108, no. 3 (September 2003), p. 348.

Environmental Sustainability Strategies A rapidly growing number of companies are now expanding their exercise of social responsibility and corporate citizenship to include efforts to operate in a more environmentally sustainable fashion. **Environmental sustainability strategies** entail deliberate and concerted actions to operate businesses in a manner that protects and maybe even enhances natural resources and ecological support systems,

guards against outcomes that will ultimately endanger the planet, and is therefore sustainable for centuries.³⁴ One aspect of environmental sustainability is keeping use of the Earth's natural resources within levels that can be replenished or else will not compromise the ability of future generations to meet their needs. Some scientists claim that levels of certain resources (like fresh water and the harvesting of edible fish from the oceans) either are already unsustainable or will be soon, given that the world's consumption rises as populations, incomes, and living standards rise. Other aspects of sustainability include greater reliance on sustainable energy sources (like wind and solar power), greater use of recyclable materials, efforts to reduce any contributions to global warming caused by human activities, increased use of sustainable methods of growing foods (to reduce topsoil depletion and avoid use of pesticides, herbicides, fertilizers, and other chemicals that may be harmful to human health or ecological systems), doing more to protect wildlife habitats, using environmentally sound waste management practices, and increased efforts to decouple environmental degradation and economic growth (according to many scientists, economic growth has historically been accompanied by declines in the well-being of the environment).

CORE CONCEPT

A company'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.

Social Responsibility Strategies and the Triple Bottom Line Growing numbers of companies 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”—often referred to as the company’s “triple bottom line” or TBL.³⁵ The *profit* component of TBL concerns the traditional measure of company performance and refers broadly to a company’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 company’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 is useful for highlighting a company’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.

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

The moral case for why businesses should act in a manner that benefits all of the company’s stakeholders—not just those of shareholders—boils down to “It’s the right thing to do.” Ordinary decency, civic-mindedness, and contributing to society’s well-being should be expected of any business.³⁶ In today’s social and political climate, most business leaders can be expected to acknowledge that socially responsible actions are important and that businesses have a duty to be good corporate citizens. But there is a complementary school of thought that every business operates on the basis of an implied social contract with the members of society. According to this contract, 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 obligated to act as a responsible citizen and do its fair share to promote the general well-being of society and the environment. Such a view clearly puts a moral burden on a company to operate honorably, provide good working conditions to employees, be a good environmental steward, and display good corporate citizenship, thereby boosting its social and environmental bottom lines.

Every action a company takes can be interpreted as a statement of what it stands for.

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

Whatever one thinks about the validity of the moral case for corporate social responsibility and environmentally sustainable business practices, there are definitely good business reasons why companies 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 visible social responsibility strategy gives a company an edge in differentiating itself from rivals and in appealing to those consumers who prefer to do business with companies that are good corporate citizens. Ben & Jerry's, Whole Foods Market, Stonyfield Farm, Patagonia, and the Body Shop have definitely expanded their customer bases because of their visible and well-publicized activities as socially conscious companies. More and more companies are also recognizing the cash register payoff of social responsibility strategies that reach out to people of all cultures and demographics (women, retirees, and ethnic groups).
- *A strong commitment to socially responsible behavior reduces the risk of reputation-damaging incidents.* Companies that place little importance on operating in a socially responsible manner are more prone to scandal and embarrassment. Consumer, environmental, and human rights activist groups are quick to criticize businesses whose behavior they consider to be out of line, and they are adept at getting their message into the media and onto the Internet. Pressure groups can generate widespread adverse publicity, promote boycotts, and influence like-minded or sympathetic buyers to avoid an offender's products. Research has shown that product boycott announcements are associated with a decline in a company's stock price.³⁷ When a major oil company suffered damage to its reputation on environmental and social grounds, the CEO repeatedly said the most negative impact the company suffered—and the one that made him fear for the future of the company—was that bright young graduates were no longer attracted to work for the company.³⁸ For many years, Nike received stinging criticism for not policing sweatshop conditions in the Asian factories that produced Nike footwear, causing Nike cofounder and former CEO Phil Knight to observe that “Nike has become synonymous with slave wages, forced overtime, and arbitrary abuse.”³⁹ In 1997, Nike began an extensive effort to monitor conditions in the factories of the contract manufacturers that produced Nike shoes. As Knight said, “Good shoes come from good factories and good factories have good labor relations.” Nonetheless, twenty years later, Nike continues to be targeted by human rights activists that its monitoring procedures are flawed and that more needs to be done to improve working conditions at the plants of contract manufacturers making products for Nike. For example, two 2016 reports about a Nike contract factory in Vietnam documented numerous violations of labor standards, including wage theft, bribes paid in exchange for jobs, pregnancy discrimination, factory temperatures above 90 degrees, unsafe use of chemicals, padlocked exit doors, and the “chronic” problem of workers collapsing at sewing machines due to exhaustion and excessive heat.
- *Socially responsible actions yield internal benefits (particularly concerning employee recruiting, workforce retention, and training costs) and can improve operational efficiency.* Companies with deservedly good reputations for contributing time and money to the betterment of society are better able to attract and retain employees, compared to companies with tarnished reputations. Some employees just feel better about working for a company committed to improving society.⁴⁰ This can contribute to lower turnover and better worker productivity. Other direct and indirect economic benefits include lower costs for staff recruitment and training. For example, Starbucks is said to enjoy much lower rates of employee turnover because of its full benefits package for both full-time and part-time employees, management efforts to make Starbucks a great place to work, and the company's socially responsible practices. When

The higher the public profile of a company 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.

a U.S. manufacturer of recycled paper, taking eco-efficiency to heart, discovered how to increase its fiber recovery rate, it saved the equivalent of 20,000 tons of waste paper—a factor that helped the company become the industry’s lowest-cost producer.⁴¹ By helping two-thirds of its employees stop smoking and investing in a number of wellness programs for employees, Johnson & Johnson saved \$250 million on its health care costs over a 10-year period.⁴² Making a company a great place to work pays dividends in recruiting talented workers, stimulating more creativity and energy on the part of workers, boosting worker productivity, and building greater employee commitment to the company’s business mission/vision and success in the marketplace.

- *Corporate social responsibility and environmental sustainability strategies can create opportunities for revenue enhancement.* In many cases, the revenue opportunities are tied to a company’s core products. Efforts to reduce greenhouse gas emissions have resulted in the creation and production of battery-powered electric vehicles—a growing revenue source for motor vehicle manufacturers. General Electric, one of the world’s largest producers of power generation equipment, has created a profitable new business in wind turbines. Sometimes, revenue enhancement opportunities come from innovative ways to reduce waste and use the by-products of a company’s production activities. Tyson Foods, the world’s largest meat producer, entered into a joint venture to produce jet fuel for both military and commercial aircraft and diesel fuel for automobile and truck engines from the vast amount of beef and chicken fat resulting from its meat product businesses.
- *Well-conceived social responsibility strategies work to the advantage of shareholders.* A two-year study of leading companies found that improving environmental compliance and developing environmentally friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts.⁴³ The stock prices of companies that rate high on social and environmental performance criteria have been found to perform 35 to 45 percent better than the average of the 2,500 companies comprising the Dow Jones Global Index.⁴⁴ A review of some 135 studies indicated there is a positive, but small, correlation between good corporate behavior and good financial performance; only 2 percent of the studies showed that dedicating corporate resources to socially responsible activities harmed shareholders’ interests.⁴⁵ Furthermore, socially responsible business behavior helps avoid or preempt legal and regulatory actions that could prove costly and otherwise burdensome. In some cases, it is possible to craft corporate social responsibility strategies that contribute to competitive advantage and, at the same time, deliver greater value to society.⁴⁶ For instance, Walmart, by working with its suppliers to reduce the use of packaging materials and revamping the routes of its delivery trucks to cut out 100 million miles of travel, saved \$200 million in costs annually (which enhanced its cost competitiveness vis-à-vis rivals) and lowered carbon emissions.⁴⁷

There’s little hard evidence indicating shareholders are disadvantaged in any meaningful way by a company’s actions to be socially responsible; on the contrary, a social responsibility strategy that packs some punch and is more than rhetorical flourish can produce outcomes beneficial to shareholders.

In sum, companies that take social responsibility seriously can improve their business reputations and operational efficiency while also reducing their risk exposure and encouraging loyalty and innovation. Overall, companies that take special pains to protect the environment (beyond what is required by law), are active in community affairs, and are generous supporters of charitable causes and projects that benefit society are more likely to be seen as good investments and as good companies to work for or do business with. Shareholders are likely to view the business case for social responsibility as a strong one, even though they certainly have a right to be concerned whether the time and money their company spends to carry out its social responsibility strategy outweighs the benefits and reduces the bottom line by an unjustified amount.

Companies are, of course, sometimes rewarded for bad behavior—a company able to shift environmental and other social costs associated with its activities onto society as a whole can reap large short-term profits. The major cigarette producers for many years were able to earn greatly inflated profits by shifting the health-related costs of smoking onto others and escaping any responsibility for the harm their products caused. Most companies will, of course, try to evade paying for the social harms of their operations as long as they can. Calling a halt to such

actions usually hinges upon (1) the effectiveness of activist social groups in publicizing a company's harmful actions and marshaling public opinion for something to be done, (2) the enactment of corrective legislation or regulations, and (3) decisions on the part of socially-conscious buyers to take their business elsewhere.

Key Points

Business ethics concerns the application of 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.

There are three schools of thought about ethical standards:

- According to the *school of ethical universalism*, 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.
- According to the *school of ethical relativism*, different societal cultures and customs have divergent values and standards of right and wrong. Thus, what is ethical or unethical must be judged in the light of local customs and social mores and can vary from one culture or nation to another.
- According to *integrated 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 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. However, universal ethical norms always take precedence over local ethical norms.

Three categories of managers stand out regarding their prevailing beliefs in, and commitments to, ethical and moral principles in business affairs: the moral manager; the immoral manager; and the amoral manager. By some accounts, the population of managers is said to be distributed among all three types in a bell-shaped curve, with immoral managers and moral managers occupying the two tails of the curve, and the amoral managers, especially the intentionally amoral managers, occupying the broad middle ground.

The apparently large numbers of immoral and amoral businesspeople are one obvious reason why some companies resort to unethical strategic behavior. But three other factors prompt unethical business behavior: (1) overzealous pursuit of wealth and other selfish interests, (2) heavy pressures on company managers to meet or beat earnings targets, and (3) a company culture that puts the profitability and good business performance ahead of ethical behavior.

A company's strategy should be ethical 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 and because an ethical strategy is good business and in the self-interest of shareholders.

Corporate social responsibility concerns a company's *duty* to operate honorably, provide good working conditions for employees, be a good environmental steward, and actively work to better the quality of life in the communities where it operates and in society at large. The particular combination of socially responsible endeavors a company elects to pursue defines its *social responsibility strategy*.

The moral case for corporate social responsibility and environmental sustainable business practices boils down to a simple concept: It's the right thing to do. A business is obligated to act as a responsible citizen and do its fair share to promote the general well-being of society and the environment.

There are solid reasons why social responsibility and environmental sustainability strategies are good business—it can be conducive to greater buyer patronage, reduce the risk of reputation-damaging incidents, and boost operating efficiency—outcomes that are in the long-term best interests of shareholders.