



## **Chapter: 3**

# **Social Responsibility & Ethics in Business**

# Social Responsibility

- "Social responsibility means making sure that the people's quality of life and their human rights are not compromised to accomplish your expectations and demands."  
**e.g.** For instance, purchasing goods and food, that have been traded fairly, and manufactured in good conditions.
- "Social responsibility refers to the obligation of an organization to seek actions that protect and improve the welfare of society along with its own interest."
- "The idea that has social obligations above and beyond making a profit."

# Ethics

- Ethics is a Greek word, it means character or manners.

“Ethics means principles, values, and beliefs that define what is right and wrong behavior.”

- **Business Ethics**

“Business ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed.”

# Social Responsibilities of Strategic Decision Maker

- The concept of social responsibility describes that an organization has responsibilities to society other than making the profits.

**For example:** A decision to reduce the workforce and product lines in the business firm not only effect the firm profitability but it also effect the employees, customers and the communities that are linked to the firm directly or indirectly.

- Decision maker while making a strategy should keep in view the social effects.

# Responsibilities of a Business Firm

## Introduction

### Responsibility of a Business



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graph TD; A[Responsibility of a Business] --> B[Responsibility of a business traditionally]; A --> C[Responsibility of a business in present scenario]; B --> D["• Providing goods and services to society.  
• Maximizing corporate profit  
• Creating job opportunities etc"]; C --> E["To solve social problems like poverty, corruption, pollution, educational problem etc."];
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Responsibility of a business traditionally

- Providing goods and services to society.
- Maximizing corporate profit
- Creating job opportunities etc

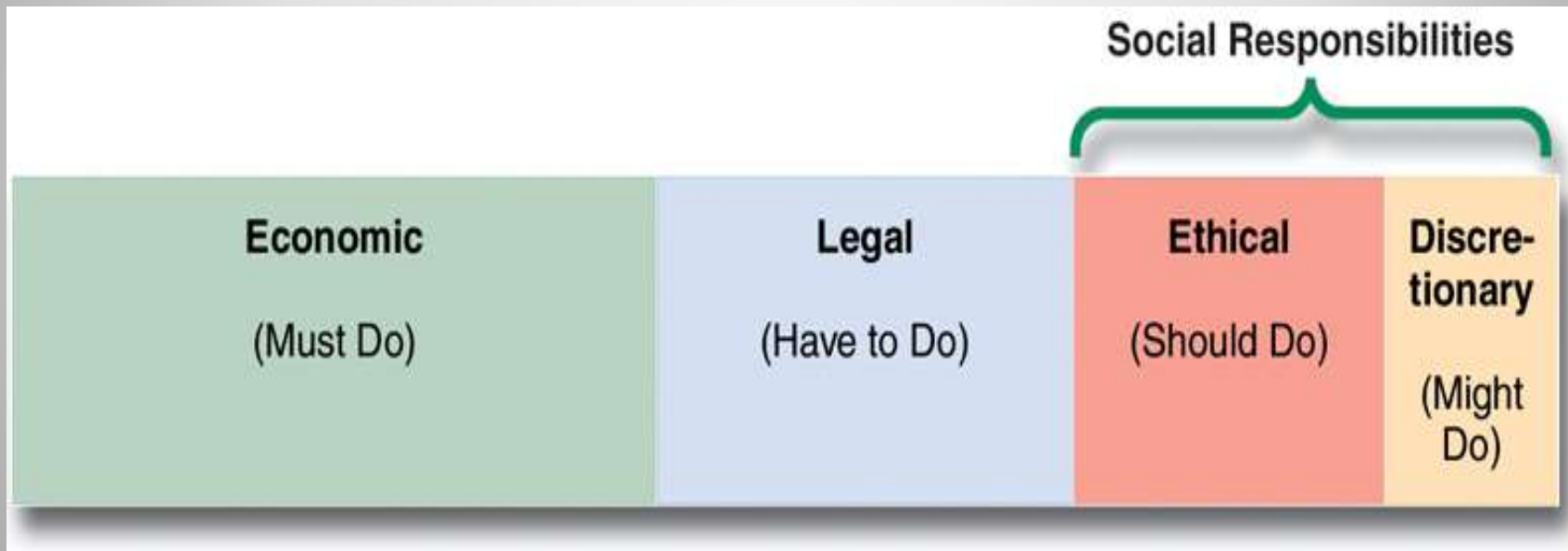
Responsibility of a business in present scenario

To solve social problems like poverty, corruption, pollution, educational problem etc.

# Friedman's Traditional View of Business Responsibility

- "Friedman's argues against the concept of social responsibility that is the primary goal of business firm is profit maximization not spending shareholders money for the general social interest."
- "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."
- He says that socially responsible actions hurt a firm's efficiency.

# Carroll's Four Responsibilities of Business



# Carroll's Four Responsibilities of Business

- "Carroll's proposes that the managers of business organization should have four responsibilities: economic, legal, ethical and discretionary."
- Ethical and discretionary are the social responsibilities while economic and legal are the top priorities for a firm to continue its existence.
- He proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency.



**1. Economic** responsibilities are to produce goods and services of value to society so that the firm may repay its creditors and shareholders.

**e.g.** Be profitable, Maximize sales revenue, Minimize cost, Make wise strategic decision etc...

**2. Legal** responsibilities are defined by governments in laws that management is expected to obey.

Obey all laws such as; Environmental laws, Consumers laws, Quality laws etc...

**3. Ethical** responsibilities of an organization's management are to follow the generally held beliefs about how one should act in a society.

**e.g.** Creating job opportunities, Providing products as per the need of the customers, etc...

**4. Discretionary** responsibilities are the purely voluntary obligations a corporation assumes.

Examples are philanthropic contributions, programs supporting community education, health, poverty etc...

**Both Friedman and Carroll argue their positions based on the impact of socially responsible action on a firm's profits:**

- Friedman says that socially responsible actions hurt a firm's efficiency.
- Carroll proposes that a lack of social responsibility results in increased government regulations, which reduce a firm's efficiency.

# Sustainability

- In order for a business corporation to be sustainable that is to be successful over a longer period of time, it must satisfy all of its economic, legal, ethical and discretionary responsibilities.
- Sustainability thus involves many issues that lead us to corporate stakeholders.

# Corporate Stakeholders

- A corporation's task environment includes a large number of groups with interest in a business organization's activities. These groups are referred to as stakeholders.
- Stakeholders have an interest in the business and affect or are affected by the achievement of the firm's objectives.

# Enterprise Strategy

- **Enterprise strategy—an overarching strategy that explicitly articulates the firm's ethical relationship** with its stakeholders. This requires not only that management clearly state the firm's key ethical values, but also understand its societal context, and undertakes stakeholder analysis to identify the concerns and abilities of each stakeholder.

# Corporate Stakeholders

## □ Stakeholder Analysis:

Is the identification and evaluation of corporate stakeholders in three steps:

- 1. Primary Stakeholders** have a direct connection with the corporation and have sufficient bargaining power to directly effect corporation activities.

Primary stakeholders include; customers, employees, suppliers, shareholders and creditors.

**2. Secondary Stakeholders** have an indirect stake in the corporation but are also affected by corporate activities.

Secondary stakeholders include; governments, NGO's, activists, local communities, trade associations, competitors.

**3. Estimate** the third step in stakeholder analysis is to estimate the effect on each stakeholder group from a particular strategic decision.



# Stakeholder Input

- Before making a strategic decision, strategic managers should consider how each alternative will affect various stakeholder groups.
- Once stakeholder impacts have been identified, managers should decide whether stakeholder input should be invited into the discussion of the strategic alternatives.
- A group is more likely to accept or even help implement a decision if it has some input into which alternative is chosen and how it is to be implemented.

# Reasons for Unethical Behavior

- ❑ Lack of standards of conduct
- ❑ Different cultural norms and values
- ❑ Behavior-based or relationship-based governance systems
- ❑ Different values between business people and stakeholders

- 70% of executives representing 111 diverse nations and multinational corporations reported that they bend the rules to attain their objectives.
- **The three most common reasons given were:**
  - *Organizational performance required it – 74%*
  - *Rules were ambiguous or out of date – 70%*
  - *Pressure from others and everyone does it – 47%*

# Moral Relativism

- Moral relativism may be any of several philosophical positions concerned with the differences in moral judgments across different people and cultures.
- Moral relativism claims that morality is relative to some personal, social, or cultural standard and that there is no method for deciding whether one decision is better than another.

# Types of Moral Relativism

## 1. Naïve Relativism

- Moral decisions are highly personal and that individuals have the right to run their own lives.
- Moral relativism argue that each person should be allowed to interpret situations and act on his /her own moral values. This is not so much a belief as it is an excuse for not having a belief or excuse of not taking actions

## 2. Role Relativism

- Social roles carry certain obligations to that role .
- Managers have to put aside their personal beliefs and do instead what the role requires , that is act in the best interest of the unit.

### **3. Social Group Relativism**

- Morality is simply a matter of following the norms of an individual's peer group, social group relativism argues that a decision is considered legitimate if it is common practice
- A person may incorrectly believe that a certain action is commonly accepted practice in an industry when it is not

## 4. Cultural Relativism

- Morality is relative to culture , society and community.
- Cultural relativism argue that people should understand the practices of other societies but not judge them.
- This view suggests that one should not criticize another culture's norms and customs but also that it is acceptable to follow the norms and customs.



# Kohlberg's Levels Of Moral Development

- Another reason why some business people might be seen as unethical is that they may have no well-developed personal sense of ethics. A person's ethical behavior is affected by his or her level of moral development.
- Kohlberg proposes that a person progresses through three levels of moral development.
- Kohlberg's three levels are as follows:

## **a. Pre-conventional Level**

This level is characterized by a concern for self. Small children and others who not have progressed beyond this stage evaluate behaviors on the basis of personal interest---- avoiding punishment.

## **b. Conventional Level**

This level is characterized by considerations of society's laws and norms. Actions are justified by an external code of conduct.

## **c. Principal Level**

This level is characterized by a person's adherence to an internal code. An individual at this level looks beyond norms or laws to find universal values or principles.

# Encouraging Ethical Behavior

## □ **Code Of Ethics**

It refers to how an organization expects employees should behave while on job.

A code of ethics

- Clarifies company expectations of employee conduct in various situations

# Encouraging Ethical Behavior

- Makes clear that the company expects its people to recognize the ethical dimensions in decisions and actions.
- Enhanced internal reporting & communication
- Ethics hotline
- Improved compliance procedures
- Greater oversight by the board of director

## □ **Whistle-blowers Protection Act**

Those employees who report illegal or unethical behavior on the part of others. The U.S False Claim Act gives whistle-blowers 15% to 30% of any damages recovered in cases where the government is defrauded.

# Guidelines for Ethical Behavior

## Key Terms in Ethical Behavior

**Ethics-** the consensually accepted standards of behavior for an occupation, trade, or profession.

**Morality-** the precepts of personal behavior based on religious or philosophical grounds.

**Law-** is the formal codes that permit or forbid certain behaviors and may or may not enforce ethics or morality.

# Approaches to Ethical Behavior

## 1. Utilitarian Approach

This approach proposes that actions and plans should be judged by their consequences. People should therefore behave in such a way that will produce the greatest benefit to society and produce the least harm or the lowest cost.



## 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.

### 3. Justice Approach

- This approach proposes that decision makers be equitable, fair, and impartial in the distribution of costs and benefits to individuals and groups. It follows the principles of *distributive justice* (people who are similar on relevant dimensions such as job seniority should be treated in the same way) and *fairness* (liberty should be equal for all persons).

- *The justice approach can also include the concepts of retributive justice (punishment should be proportional to the "crime") and compensatory justice (wrongs should be compensated in proportion to the offense).*

# Approaches to Ethical Behavior

**Cavanagh's questions** to solve ethical problems:

- 1. Utility:** Does it optimize the satisfactions of the stakeholders?
- 2. Rights:** Does it respect the rights of the individuals involved?
- 3. Justice:** Is it consistent with the canons of justice?


# Approaches to Ethical Behavior

## –Categorical imperative (Immanuel Kant)

1. A person's action is ethical only if that person is willing for that same action to be taken by everyone who is in a similar situation.
- Treat others as you would like to be treated.

2. A person should never treat another human being simply as a means but always an end.

- This means that an action is morally wrong for a person if that person uses others merely as means for advancing his / her own interests.
- To be moral , the act should not restrict other people's actions so that they are disadvantaged in some ways.



*"Winning is not everything,  
winning in  
right path is everything".*