

Corporate Social Responsibility and Business Ethics

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Learning Objectives

1. Understand the importance of the stakeholder approach
2. Explain the continuum of social responsibility
3. Describe a social audit
4. Discuss the effect of Sarbanes-Oxley, 2002
5. Compare advantages of collaborative social initiatives
6. Explain the 5 principles of collaborate social initiatives
7. Compare the merits of different approaches to business ethics
8. Explain relevance of business ethics to strategic management practice.

Stakeholder Approach

According to the Stakeholder Approach:

- In defining or redefining the company mission, strategic managers must recognize the legitimate rights of the firm's claimants.
- In addition to stockholders and employees, these include outside stakeholders affected by the firm's actions.

Perceived Stakeholders

- Customers
- Government
- Stockholders
- Employees
- Society



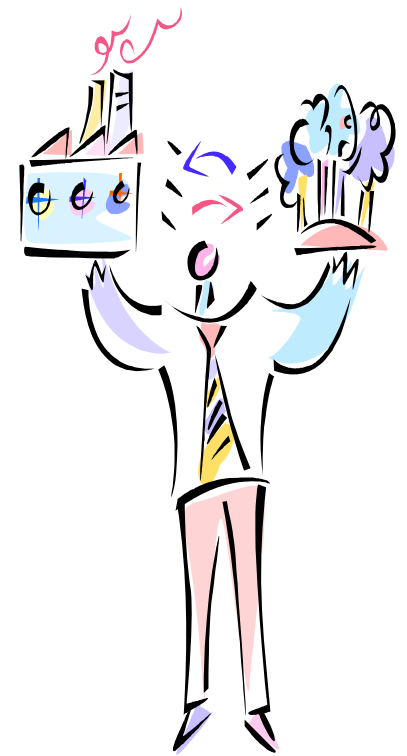
Steps to Incorporate Stakeholders:



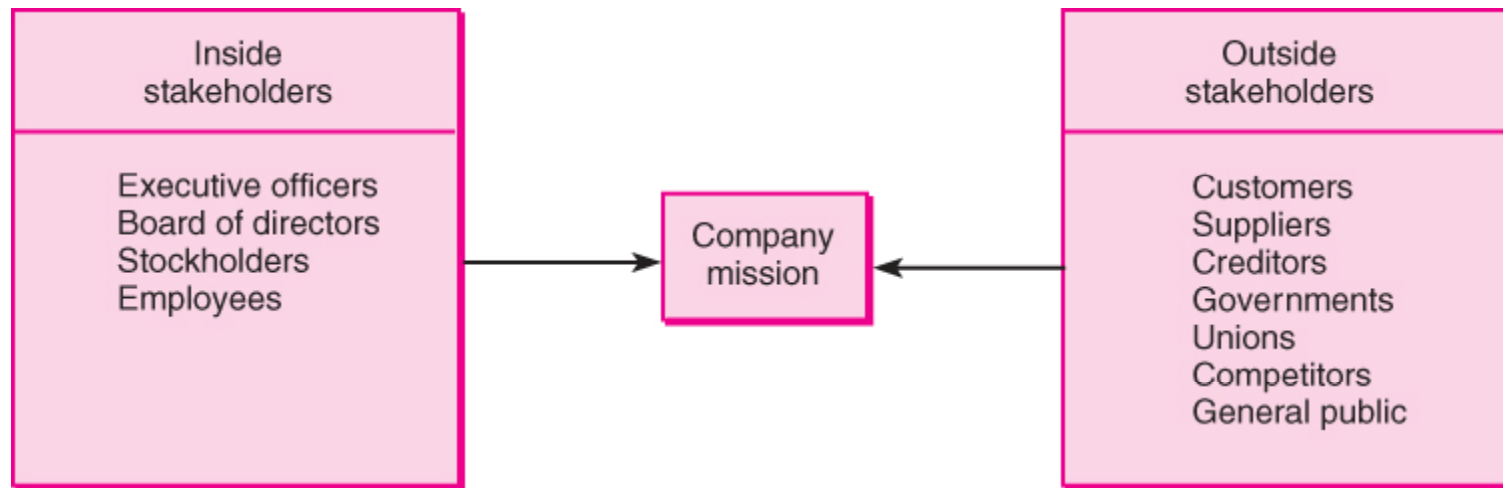
1. **Identification** of stakeholders
2. **Understanding** stakeholders' specific claims vis-à-vis the firm
3. **Reconciliation** of these claims and assignment of **priorities**
4. **Coordination** of the claims with other elements of the company mission

Dynamics of Social Responsibility

- Inside vs. Outside Stakeholders
- Duty to serve society *plus* duty to serve stockholders
- Flexibility is key
- Firms differ along:
 - Competitive Position
 - Industry
 - Country
 - Environmental Pressures
 - Ecological Pressures



Ex. 3.2 Inputs to the Development of Company Mission

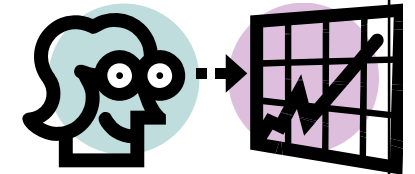
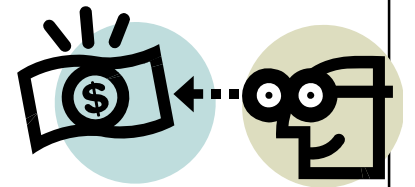


Types of Social Responsibility

- **Economic** – the duty of managers, as agents of the company owners, to maximize stockholder wealth
- **Legal** – the firm's obligations to comply with the laws that regulate business activities
- **Ethical** – the company's notion of right and proper business behavior.
- **Discretionary** – voluntarily assumed by a business organization.

CSR & Profitability

- **Corporate social responsibility (CSR)**, is the idea that business has a duty to serve society in general as well as the financial interests of stockholders.
- The dynamic between CSR and success (profit) is complex. They are not mutually exclusive, and they are not prerequisites of each other.

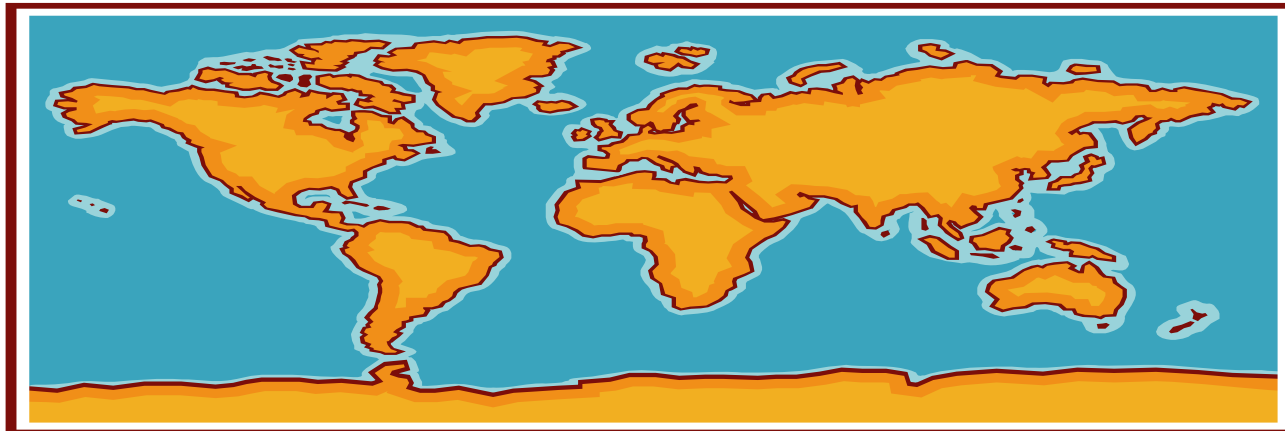


Factors Complicating a Cost-Benefit Analysis of CSR:

1. Some CSR activities incur no dollar costs at all. In fact, the benefits from philanthropy can be huge.
2. Socially responsible behavior does not come at a *prohibitive cost*.
3. Socially responsible practices may create savings, and, as a result, increase profits.
4. Proponents argues that CSR costs are more than offset in the long run by an improved company image and increased community goodwill.

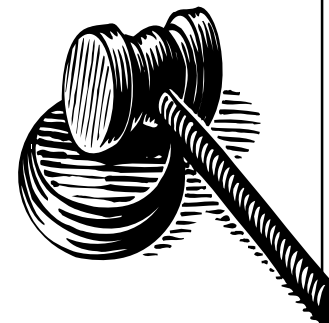
CSR Today

- Priority of American businesses
- Resurgence of Environmentalism
- Increasing Buying Power among Consumers
- Globalization of Business



Sarbanes-Oxley Act of 2002

- CEO and CFO must certify every report containing company's financial statements
- Restricted corporate control of executives, acting, firms, auditing committees, and attorneys
- Specifies duties of registered public acting firms that conduct audits
- Composition of the audit committee and specific responsibilities
- Rules for attorney conduct
- Disclosure periods are stipulated
- Stricter penalties for violations

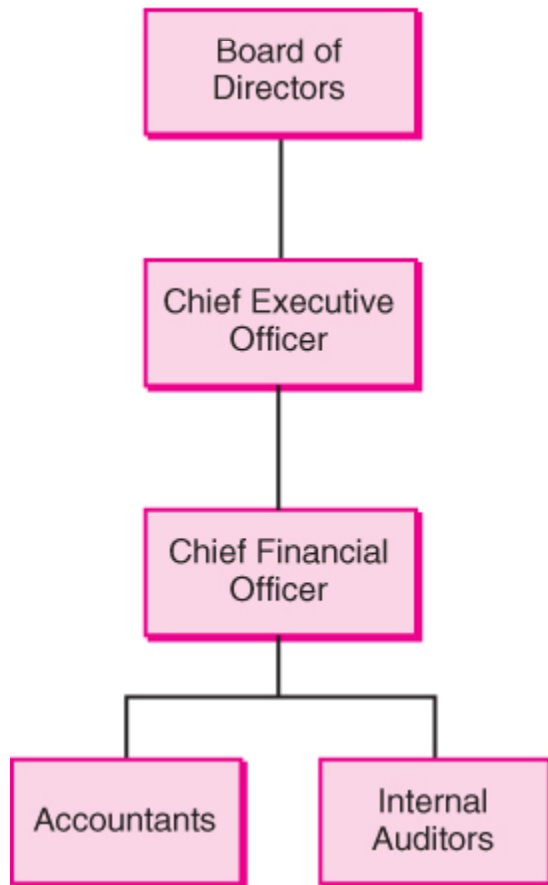


New Corporate Governance Structure

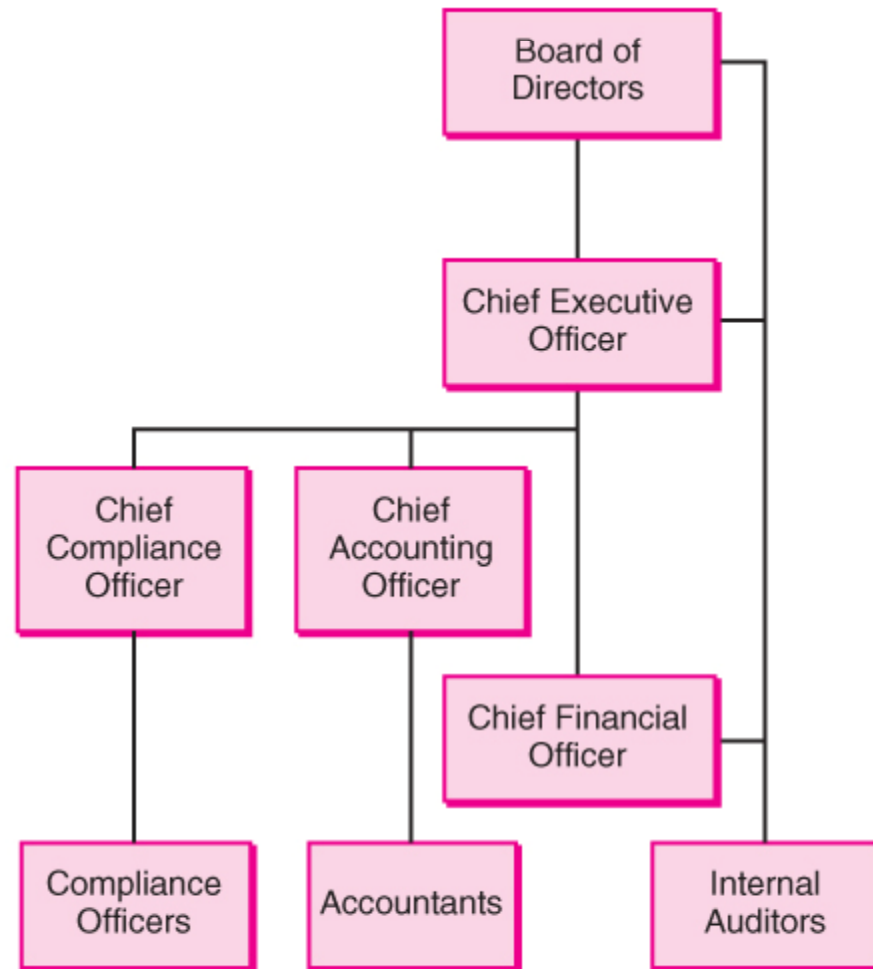
- Restructuring governance structure in American corporations
- Heightened role of corporate internal auditors
- Auditors now routinely deal directly with top corporate officials
- CEO information provided directly by the company's chief compliance and chief accounting officers

Ex. 3.8 The New Corporate Governance Structure

The Traditional Structure



The New Structure



CSR's Effect on Mission Statement

- The mission statement embodies what company believes
- Managers must identify all stakeholder groups and weigh their relative rights and abilities to affect the firm's success

Social Audit

- A **social audit** is an attempt to measure a company's actual social performance against its social objectives.
- The social audit may be used for more than simply monitoring and evaluating firm social performance.

Satisfying Corporate Social Responsibility

- Conflicting pressures on executives
- The CSR Debate: centuries old
- There are mutual advantages to using Collaborative Social Initiatives (CSIs)

Ex. 3.10 Continuum of Corporate Social Responsibility Commitments

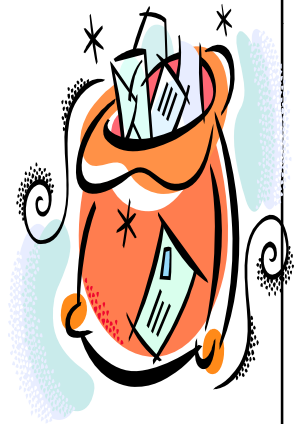


Five Principles of Successful CSIs

1. Identify a Long-Term Durable Mission
2. Contribute “What We Do”*
**This is the most important principle*
3. Contribute Specialized Services to a Large-Scale Undertaking
4. Weigh Government’s Influence
5. Assemble and Value the Total Package of Benefits

The Limits of CSR Strategies

- Some companies have embedded social responsibility and sustainability commitments deeply in their core strategies.
- Larger companies must move beyond the easy options of charitable donations but also steer clear of overreaching commitments.
- CSR strategies can also run afoul of the skeptics—the speed of information on the Internet makes this an issue with serious ramifications.



The Future of CSR

- CSR is firmly and irreversibly part of the corporate fabric
- Corporations will face growing demands for social responsibility contributions far beyond simple cash or in-kind donations
- The public's perception of ethics in corporate America is near its all-time low
- Even when groups agree on what constitutes human welfare, the means they choose to achieve it may differ

Management Ethics

The Nature of Ethics in Business:

- Belief that managers will behave in an ethical manner is central to CSR
- **Ethics** – the moral principles that reflect society's beliefs about the actions of an individual or a group that are right and wrong
- Ethical standards reflect the end product of a process of defining and clarifying the nature and content of human interaction

Approaches to Questions of Ethics

- **Utilitarian Approach**
- **Moral Rights Approach**
- **Social Justice Approach**
 - Liberty Principle
 - Difference Principle
 - Distributive-Justice Principle
 - Fairness Principle
 - Natural-Duty Principle

Code of Business Ethics

- To help ensure *consistence* in the application of ethical standards, an increasing number of professional associations and businesses are establishing *codes of ethical conduct*.
- The following all have ethics codes:
 - Chemists
 - Funeral directors
 - Law Enforcement Agents
 - Hockey Players
 - Librarians
 - Physicians

Major Trends in Codes of Ethics

1. Increased interest in codifying business ethics has led to both the proliferation of formal statements by companies and to their prominence among business documents.
2. Such codes used to be found solely in employee handbooks.
3. Companies are adding enforcement measures to their codes.
4. Increased attention by companies in improving employees' training in understanding their obligations under the company's code of ethics.