CHAPTER 1

Social Responsibility Framework

Chapter Objectives

- To define the concept of social responsibility
- To trace the development of social responsibility
- To examine the global nature of social responsibility
- To discuss the benefits of social responsibility
- To discuss the framework for understanding social responsibility

Chapter Outline

Social Responsibility Defined

Development of Social Responsibility

Global Nature of Social Responsibility

Benefits of Social Responsibility

Framework for Studying Social Responsibility

OPENING CASE

Going Public, Maintaining Values at Huntsman

Huntsman is a global manufacturer and marketer of a wide variety of chemicals. Originally founded in 1970, this Salt Lake City–based corporation employs 11,300 individuals in 100 locations as diverse as São Paulo, Brazil; Cairo, Egypt; Chocolate Bayou, Texas; and Kobe, Japan. The company supplies chemicals and related materials to global industries. Huntsman recently launched its green chemistry business unit to ensure the firm remains a leader in environmentally sound engineering and manufacturing processes. The company still bears the name of its founder and chairman, Jon M. Huntsman, and the company's mission statement articulates a clear dedication to corporate responsibility:

> *We will operate safe, clean, efficient facilities in an environmentally and socially responsible manner.*
>
> *We will provide a work environment that fosters teamwork, innovation, accountability, and open communication.*
>
> *We will place into society assistance for those who suffer, hope for those who may need inspiration and education for those who may feel the challenge but do not have the means.*
>
> *We have an aggressive growth philosophy which reflects the spirit of free enterprise and maximization of long term profits, the best motives for creating mutual benefits for customers, employees, suppliers, and the communities in which we are located.*

Peter R. Huntsman, Jon's son, became President and CEO of Huntsman in 2000 and has led the company through an increasingly tumultuous business environment. Huntsman, a privately held firm until 2005, has gone through the difficult transition to a public ownership structure. Now subject to heightened Wall Street scrutiny, short-term investors, increased reporting, and new compliance structures, the company is faced with decisions and actions that still need to align with its mission, including the maximization of long-term profits, environmental responsibility, philanthropy, and benefits for multiple stakeholders.

During the first decade of 2000s, the company achieved its lowest rate ever of occupational injuries as measured by the Occupational Safety and Health Administration (OSHA), gained recognition for outstanding environmental performance, and weathered the effects of Hurricane Ike on operations in the Texas Gulf Coast region. By 2009, however, Huntsman had posted significant losses amidst a halting global economy and vowed to recover via cost-cutting mechanisms and new business opportunities in China. Huntsman was also embroiled in a lawsuit against Credit Suisse and Deutsche Bank, alleging fraud and conspiracy over a failed merger agreement.

Even in the face of a disruptive business environment and pressures of public ownership, Huntsman's website clearly outlines expectations for corporate governance, business conduct, and other policies designed to meet and exceed legal standards. The company also elaborates on its philanthropic orientation and efforts to assist society via cancer research and programs combating homelessness and domestic violence. Although some of these responsibilities are mandatory, others are discretionary and were built over time as the Huntsman business grew, the economy changed, and new societal expectations emerged.[1]

Businesses today must cope with increasingly complex, and often competing, motives and incentives in their decision making. In a *Business Week*–Harris Poll survey of the general population, 95 percent of respondents agreed with the following statement: "U.S. corporations should have more than one purpose. They also owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some profit for the sake of making things better for their workers and communities."[2] In an era of intense global

competition and increasing media scrutiny, consumer activism, and government regulation, all types of organizations need to become adept at fulfilling these expectations. Like Huntsman, many companies are trying, with varying results, to meet the many economic, legal, ethical, and philanthropic responsibilities they now face. Satisfying the expectations of social responsibility is a never-ending process of continuous improvement that requires leadership from top management, buy-in from employees, and good relationships across the community, industry, market, and government. Companies must properly plan, allocate, and use resources to satisfy the demands placed on them by investors, employees, customers, business partners, the government, the community, and others.

"The general population believes that U.S. corporations owe something to their workers and the communities in which they operate, and should sometimes sacrifice some profit to make things better for their workers and communities."

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In this chapter, we examine the concept of social responsibility and how it relates to today's complex business environment. First, we define social responsibility. Next, we consider the development of social responsibility, its benefits to organizations, and the changing nature of expectations in our increasingly global economy. Finally, we introduce the framework for studying social responsibility used by this text, which includes such elements as strategic management for stakeholder relations; legal, regulatory, and political issues; business ethics; corporate governance; consumer relations; employee relations; philanthropy and community relations; environmental issues; technology issues; and the social audit.

SOCIAL RESPONSIBILITY DEFINED

Business ethics, corporate volunteerism, compliance, corporate citizenship, reputation management—these are terms you may have heard used, or even used yourself, to describe the various rights and responsibilities of business organizations. You may have thought about what these terms actually mean for business practice. You may also have wondered what expectations of business these phrases describe. In this chapter, we clarify some of the confusion that exists in the terminology that people use when they talk about expectations for business conduct. To this end, we begin by defining social responsibility.

In most societies, businesses are granted a license to operate and the right to exist through a combination of social and legal mechanisms. Businesses are expected to pay taxes, abide by laws and regulations, treat employees fairly, follow through on contracts, protect the natural environment, meet warranty obligations, and adhere to many other standards. Companies that continuously meet and exceed these standards are rewarded with customer satisfaction, employee dedication, investor loyalty, strong relationships in the community, and the time and energy to continue focusing on business-related concerns. Firms that fail to meet these responsibilities can face penalties, both formal and informal, and may have their attention diverted away from core business issues. For example, a restaurant that delivers poor-quality food and shoddy service may be informally sanctioned by customers who decide to take their business elsewhere. These same customers often tell friends and family to avoid the restaurant, thus creating a spiral of effects that eventually shutters the restaurant's doors. On the other hand, a large multinational corporation may be faced with protestors who use physical means to destroy or deface one of its retail stores. In this case, the company is not permanently harmed, but it must allocate resources to remodel the store and answer criticism.

Finally, a company engaged in deceptive practices may face formal investigation by a government agency. This investigation could lead to legal charges and penalties, perhaps severe enough to significantly alter the company's products and practices or close the business. For example, Conseco Inc., a large insurance and finance company, filed for Chapter 11 bankruptcy protection amid a federal investigation into its accounting practices and investor lawsuits. Before the filing, Conseco reported $52.3 billion in assets, making its bankruptcy one of the largest in U.S. history. Although the firm eventually emerged from bankruptcy, investors and analysts continued to be critical of Conseco's executive management and strategic direction. After a literal revolving door of executives, the company failed to file its annual report in a timely manner in 2009, prompting concerns about a looming second bankruptcy.[3]

Businesses today are expected to look beyond self-interest and recognize that they belong to a larger group, or society, that expects responsible participation. Thus, if any group, society, or institution is to function, there must be a delicate interplay between rights (i.e., what people expect to get) and responsibilities (i.e., what people are expected to contribute) for the common good.

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A Starbucks barista proudly makes and serves drinks in downtown Seattle

The adage "no man is an island" describes the relational and integrative nature of society. Although businesses are not human beings, they plan, develop goals, allocate resources, and act and behave purposefully. Thus, society grants them both benefits and responsibilities.

The term *social responsibility* came into widespread use in the business world during the 1970s, but there remains some confusion over the term's exact meaning. Table 1.1 lists some of the different ways people commonly use the term to describe business responsibilities. Many of these characterizations have elements in common, such as focusing on the achievement of both corporate and social goals and recognizing the broad groups to which business has an obligation. Only the sixth characterization, which describes social responsibility as an oxymoron, is distinctly different from the others. This view of social responsibility, articulated in the famous economist Milton Friedman's 1962 *Capitalism and Freedom,* asserts that business has one purpose, satisfying its investors or stockholders, and that any other considerations are outside its scope.[4] Although this view still exists today, it has lost some credence as more and more companies have assumed the social responsibility orientation.[5]

Table 1.1 Characterizations of Social Responsibility

Characterization	Description
1. License to operate	Social responsibility is a condition for doing business, and as with customer requirements, a firm should find the most efficient way to meet requirements from the government and other external groups.
2. Long-term business investment	Like research and development, social responsibility is designed to improve the business environment for future progress.
3. Vehicle for achieving goals and reputation	Companies that focus on social responsibility will have stronger customer loyalty, more committed employees, better government relations, and ultimately, stronger reputations.
4. Activity to avoid exposure and risk	Responsible activities help companies avoid being singled out or exposed to unnecessary outsider intrusion.
5. Economic and constructive	Companies should reinforce the economic foundation and viability of the communities in which they operate.
6. Relationship	Business and society are interwoven and interdependent, rather than distinct entities.
7. Responsibility to stakeholders	Management should act responsibly in its relationships with other stakeholders who have a legitimate interest in the business.
8. Oxymoron	Companies are designed to increase shareholder wealth.

Sources: Archie Carroll, "A Three-Dimensional Conceptual Model of Corporate Social Performance," *Academy of Management Review* 4 (1979): 497–505; Kim Davenport, "Corporate Citizenship: A Stakeholder Approach for Defining Corporate Social Performance and Identifying Measures for Assessing It," *Business and Society* 39 (June 2000): 210–219; Lance Moir, "What Do We Mean by Social Responsibility?," *Corporate Governance: The International Journal for Effective Board Performance* 1 (2001), 16–22.

We define **social responsibility** as the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders. This definition encompasses a wide range of objectives and activities, including both historical views of business and perceptions that have emerged in the last decade. Let's take a closer look at the parts of this definition.

Social Responsibility Applies to All Types of Businesses

It is important to recognize that all types of businesses—small and large, sole proprietorships and partnerships, as well as large corporations—implement social responsibility initiatives to further their relationships with their customers, their employees, and their community at large. For example, RunTex, a store in Austin, Texas, which sells athletic shoes, clothing, and accessories, donates used shoes (which customers have traded in for discounts on new shoes) to the community's poor and homeless. The company also cosponsors walk/run events that generate funds for local and national social causes. Thus, the ideas advanced in this book are equally relevant and applicable across a broad spectrum of business firms.

Although the social responsibility efforts of large corporations usually receive the most attention, the activities of small businesses may have a greater impact on local communities.[6] Owners of small businesses often serve as community leaders, provide goods and services for customers in smaller markets that larger corporations are not interested in serving, create jobs, and donate resources to local community causes. Medium-sized businesses and their employees have similar roles and functions on both a local and a regional level. Although larger firms produce a substantial portion of the gross national output of the United States, small businesses employ about half of the private sector workforce and produce roughly half of the private sector output. In addition to these economic outcomes, small business presents an entrepreneurial opportunity to many people, some of whom have been shut out of the traditional labor force. Women, minorities, and veterans are increasingly interested in self-employment and other forms of small business activity.[7] It is vital that all businesses consider the relationships and expectations that our definition of social responsibility suggests.

Social Responsibility Adopts a Strategic Focus

Social responsibility is not just an academic term; it involves action and measurement, or the "extent" to which a firm embraces the philosophy of social responsibility and then follows through with the implementation of initiatives. Our definition of social responsibility requires a formal commitment, or way of communicating the company's social responsibility philosophy and commitment. For example, Herman Miller, a multinational provider of office, residential, and health-care furniture and services, crafted a statement that describes the company's commitment to core values (shown in Figure 1.1). This statement declares Herman Miller's philosophy and the way it will fulfill its responsibilities to its customers, its shareholders, its employees, the community, and the natural environment. Because this statement takes into account all of Herman Miller's

social responsibility the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders

Figure 1.1 Herman Miller Inc.'s Blueprint for Corporate Community

- Curiosity and Exploration
- Performance
- Engagement
- Design
- Relationships
- Inclusiveness
- A Better World
- Transparency
- Foundations

Source: "What We Believe," Herman Miller, Inc., http://www.hermanmiller.com/About-Us/What-We-Believe, accessed July 9, 2009. Courtesy of Herman Miller, Inc.

constituents and applies directly to all of the company's operations, products, markets, and business relationships, it demonstrates the company's strategic focus on social responsibility. Other companies that embrace social responsibility have incorporated similar elements into their strategic communications, including mission and vision statements, annual reports, and websites. For example, the website and annual report of the Shimizu Corporation of Japan highlight a companywide commitment to constructing high-quality buildings that create social and cultural value and are in harmony with the environment. The company refers to this commitment as "Total Eco-Construction."[8]

In addition to a company's verbal and written commitment to social responsibility, our definition requires action and results. To implement its social responsibility philosophy, Herman Miller has developed and implemented several corporate-wide strategic initiatives, including research on improving work furniture and environments, innovation in the area of ergonomically correct products, progressive employee development opportunities, and an environmental stewardship program. These efforts have earned the company many accolades, such as being named the "Most Admired" furniture manufacturer in America by *Fortune* magazine, and a place on numerous prestigious lists, including *Fortune* magazine's "100 Best Companies to Work for in America," *Forbes* magazine's "Platinum List" of America's 400 best-managed large companies, *Business Ethics* magazine's "100 Best Corporate Citizens," *Diversity Inc.* magazine's "Top 10 Corporations for Supplier Diversity," the "2007 Wastewise Gold Achievement Award for Smart Packaging," and *The Progressive Investor's* "Sustainable Business Top 20."[9] As this example demonstrates, effective social responsibility requires both words and action.

If any such initiative is to have strategic importance, it must be fully valued and championed by top management. Executives must believe in and support the integration of constituent interests and economic, legal, ethical, and philanthropic responsibilities into every corporate decision. For example, company objectives for brand awareness and loyalty can be developed and measured from both a marketing and a social responsibility standpoint because researchers have documented a relationship between consumers' perceptions of a firm's social

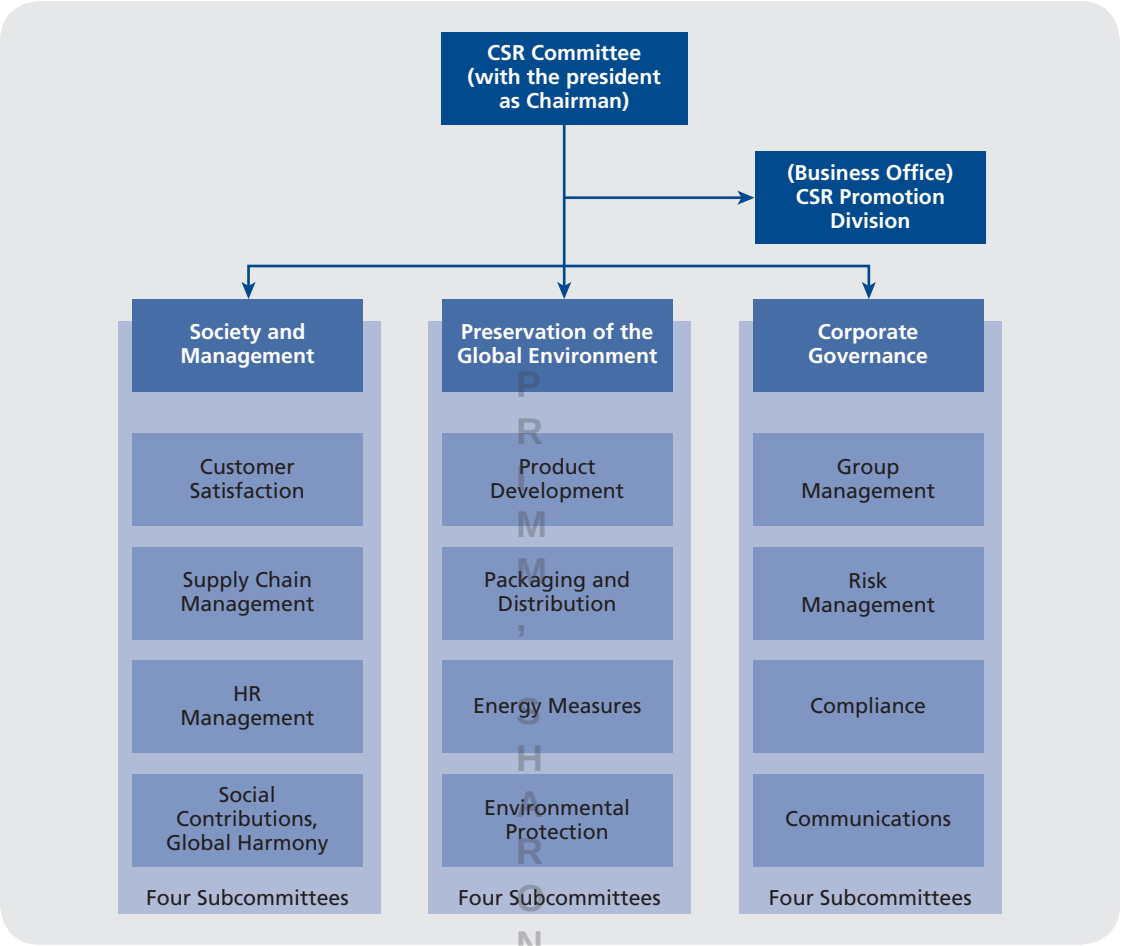
responsibility and their intentions to purchase that company's brands.[10] Likewise, engineers can integrate consumers' desires for reduced negative environmental impact in product designs, and marketers can ensure that a brand's advertising campaign incorporates this product benefit. Finally, consumers' desires for an environmentally sound product may stimulate a stronger company interest in assuming environmental leadership in all aspects of its operations. Home Depot, for example, responded to demands by consumers and environmentalists for environmentally friendly wood products by launching a new initiative that gives preference to wood products certified as having been harvested responsibly over those taken from endangered forests.[11] With this action, the company, which has long touted its environmental principles, has chosen to take a leadership role in the campaign for environmental responsibility in the home-improvement industry. Although social responsibility depends on collaboration and coordination across many parts of the business and among its constituencies, it also produces effects throughout these same groups. We discuss some of these benefits in a later section of this chapter.

Because of the need for coordination, a large company that is committed to social responsibility often creates specific positions or departments to spearhead the various components of its program. For example, Target, the national retailer, uses a decentralized approach to manage employee volunteerism. Each Target store has a "good neighbor captain" who coordinates employees' efforts with a local charity or cause. The Sara Lee Corporation, whose brands include Bryan Meats, L'eggs, Coach, Kiwi, and Champion, has established an office of public responsibility to oversee its citizenship efforts.[12] The Japanese firm TOTO Ltd., the world's largest manufacturer of plumbing-related products, has created an explicit management structure for its social responsibility effort. TOTO's new president recently initiated a focus on becoming an excellent, more vibrant, and dynamic company. The major theme linking these three areas is corporate social responsibility, TOTO style. Upon opening a luxury showroom in New York, a TOTO executive commented, "It will provide an educational environment where they . . . may learn more about TOTO, its progressive social and environmental philosophies and innovative products." TOTO uses a variety of tools to communicate about its social responsibility efforts, including the following chart from a recent annual report (see Figure 1.2). In the table of contents page of the company's annual report, CSR (corporate social responsibility) is listed as a key feature.[13]

A smaller firm may give an executive, perhaps in human resources or corporate communications, the additional task of overseeing social responsibility. In a very small

"Social responsibility must be given the same planning time, priority, and management attention that is given to any other company initiative."

Figure 1.2 TOTO Corporate Social Responsibility Committee Structure



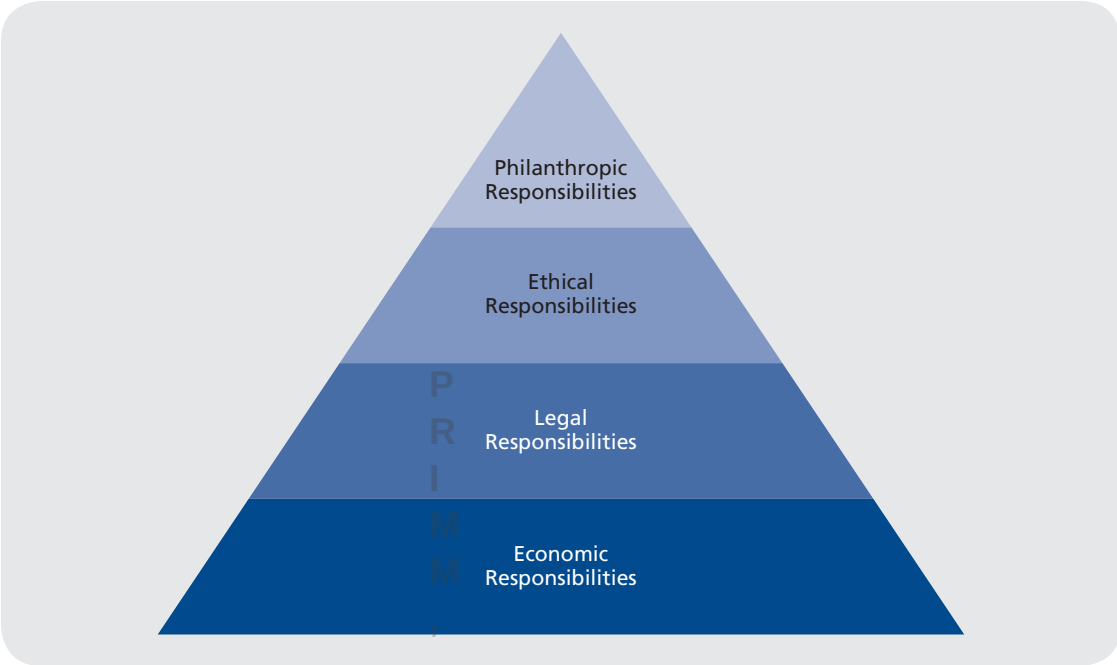
Source: TOTO, "Annual Report 2008," p. 17, http://www.toto.co.jp/en/ir/annual/pdf/annu2008.pdf, accessed May 5, 2009.

business, the owner is likely to make decisions regarding community involvement, ethical standards, philanthropy, and other areas. Regardless of the formal or informal nature of the structure, this department or executive should ensure that social responsibility initiatives are aligned with the company's corporate culture, integrated with companywide goals and plans, fully communicated within and outside the company, and measured to determine their effectiveness and strategic impact. In sum, social responsibility must be given the same planning time, priority, and management attention that is given to any other company initiative, such as continuous improvement, cost management, investor relations, research and development, human resources, or marketing research.

Social Responsibility Fulfills Society's Expectations

Another element of our definition of social responsibility involves society's expectations of business conduct. Many people believe that businesses should

Figure 1.3 Pyramid of Responsibility



Source: Reprinted with permission from *Business Horizons* 34 (July–August 1991): 42. Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders." Copyright © 1991 by the Board of Trustees of Indiana State University, Kelley School of Business.

accept and abide by four types of responsibility: economic, legal, ethical, and philanthropic (see Figure 1.3). To varying degrees, the four types are required, expected, and/or desired by society.[14]

At the lowest level of the pyramid, businesses have a responsibility to be economically viable so that they can provide a return on investment for their owners, create jobs for the community, and contribute goods and services to the economy. The economy is influenced by the ways organizations relate to their stockholders, their customers, their employees, their suppliers, their competitors, their community, and even the natural environment. For example, in nations with corrupt businesses and industries, the negative effects often pervade the entire society. Transparency International, a German organization dedicated to curbing national and international corruption, conducts an annual survey on the effects of business and government corruption on a country's economic growth and prospects. The organization reports that corruption reduces economic growth, inhibits foreign investment, and often channels investment and funds into "pet projects" that may create little benefit other than high returns to the corrupt decision makers. For example, many of the countries with the highest levels of perceived corruption also report the highest levels of poverty in the world. These countries include Somalia, Chad, Iraq, Haiti, Afghanistan, and Myanmar. Transparency International also notes that some relatively poor

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counties, including Bulgaria, Colombia, and Estonia, have made positive strides in curbing corruption. However, Canada and Ireland have started to experience higher levels of perceived corruption, yet maintain relatively strong economies. The organization encourages governments, consumers, and nonprofit groups to take action in the fight against corruption (see Figure 1.4).[15] Although business and society may be theoretically distinct, there are a host of practical implications for the four levels of social responsibility, business, and its effects on society.

At the next level of the pyramid, companies are required to obey laws and regulations that specify the nature of responsible business conduct. Society enforces its expectations regarding the behavior of businesses through the legal system. If a business chooses to behave in a way that customers, special-interest groups, or other businesses perceive as irresponsible, these groups may ask their elected representatives to draft legislation to regulate the firm's behavior, or they may sue the firm in a court of law in an effort to force it to "play by the rules." For example, many businesses have complained that Microsoft Corporation effectively had a monopoly in the computer operating system and Web browser markets and that the company acted illegally to maintain this dominance. Their complaints were validated when a U.S. district judge ruled in a federal lawsuit that Microsoft had indeed used anticompetitive tactics to maintain its Windows monopoly in operating-system software and to attempt to dominate the Web browser market by illegally bundling its Internet Explorer Web browser into its Windows operating system. Microsoft, which vehemently denied the charges, appealed that decision. The election of George W. Bush and a court of appeal's ruling to overturn the judge's decision shifted the focus to settlement talks, away

from an earlier suggestion to break up the company. Microsoft began implementing the provisions of the antitrust settlement agreement in late 2002, including hiring a compliance officer.[16]

Beyond the economic and legal dimensions of social responsibility, companies must decide what they consider to be just, fair, and right—the realm of business ethics. Business ethics refers to the principles and standards that guide behavior in the world of business. These principles are determined and expected by the public, government regulators, special-interest groups, consumers, industry, and individual organizations. The most basic of these principles have been codified into laws and regulations to require that companies conduct themselves in ways that conform to society's expectations. Many firms and industries have chosen to go beyond these basic laws in an effort to act responsibly. The Direct Selling Association (DSA), for example, has established a code of ethics that applies to all individual and company members of the association. Because direct selling, such as door-to-door selling, involves personal contact with consumers, many ethical issues can arise. For this reason, the DSA code directs the association's members to go beyond legal standards of conduct in areas such as product representation, appropriate ways of contacting consumers, and warranties and guarantees. In addition, the DSA actively works with government agencies and consumer groups to ensure that ethical standards are pervasive in the direct-selling industry. The World Federation of Direct Selling Associations (WFDSA) also maintains two codes of conduct, one for dealing with consumers and the other for interactions within the industry, that provide guidance for direct sellers around the world in countries as diverse as Argentina, Canada, Finland, Taiwan, and Poland.[17]

At the top of the pyramid are philanthropic activities, which promote human welfare and goodwill. By making voluntary donations of money, time, and other resources, companies can contribute to their communities and society and improve the quality of life. For example, Hitachi, Ltd., of Tokyo, Japan, established the Hitachi Foundation, a nonprofit philanthropic organization that invests in increasing the well-being of underserved people and communities. This Japanese company recognizes the foundation as a "tool for helping the Hitachi corporation move from being a major Japanese corporation to being a major global citizen . . . by providing opportunities for Hitachi to interact with American communities on issues that cut across national boundaries, such as the increasing diversity and multiculturalism of society, and to help Hitachi practice good corporate citizenship

© AP Photo/Andrew Milligan/PA Wire

Auto manufacturers are responding to environmental concerns by building electric cars, including Peugeot

Figure 1.5 Social Responsibility Continuum

Source: Based on ideas presented in Malcolm McIntosh, Deborah Leipziger, Keith Jones, and Gill Coleman, *Corporate Citizenship: Successful Strategies for Responsible Companies* (London: Financial Times Management, 2000); Linda S. Munilla and Morgan P. Miles, "The Corporate Social Responsibility Continuum as a Component of Stakeholder Theory," *Business and Society Review* 110 (December 2005): 371–387.

with integrity." With over two decades of existence and annual contributions of $4 million, the foundation is considered a pioneer of global social responsibility.[18] Although Hitachi is not required to support the community, similar corporate actions are increasingly desired and expected by people around the world.

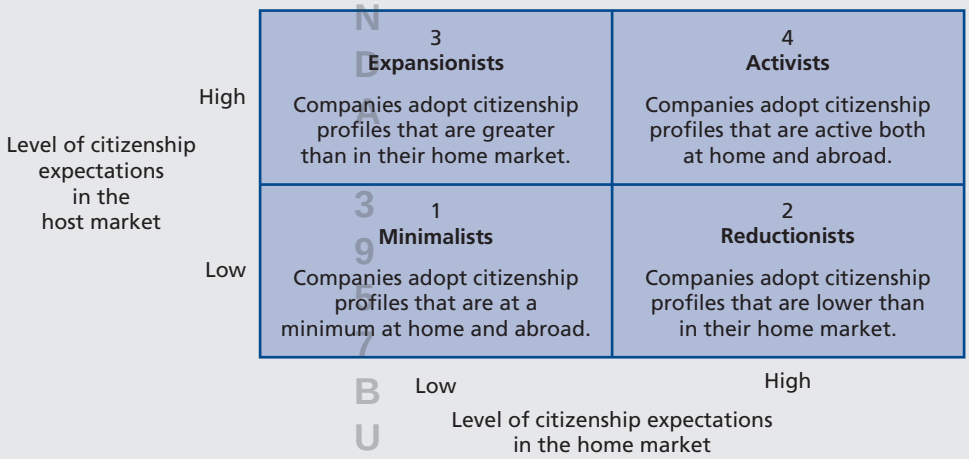
When the pyramid was first introduced, many people assumed that there was a natural progression from economic to philanthropic responsibilities, meaning that a firm had to be economically viable before it could properly consider the other three elements. Today, the pyramid is viewed in a more holistic fashion, with all four responsibilities seen as related and integrated, and this is the view we will use in this book.[19] In fact, companies demonstrate varying degrees of social responsibility at different points in time. Figure 1.5 depicts the social responsibility continuum. Companies' fulfillment of their economic, legal, ethical, and philanthropic responsibilities can range from minimal to strategic. Firms that focus only on the expectations required by laws and contracts demonstrate minimal responsibility or a compliance orientation. Firms that take minimal responsibility view such activities as a "cost of doing business." Some critics believe that pharmaceutical manufacturers take the minimal approach with respect to the advertising and sale of certain drugs. A recent situation involving two pain medicines known as Cox-2 inhibitors demonstrates this point. After safety concerns were expressed about Cox-2 inhibitors, Merck voluntarily withdrew Vioxx from the market while Pfizer began an advertising campaign focused on the safety record of Celebrex, a major competitor to Vioxx. The Food and Drug Administration soon advised Pfizer to discontinue the advertising. While Celebrex remained on the market, some critics assessed Merck's decision to withdraw Vioxx as overreactionary. Combined, the two companies eventually settled over $5 billion in lawsuits over the aggressive consumer marketing of Cox-2 inhibitors, although Celebrex is still prescribed.[20]

Strategic responsibility is realized when a company has integrated a range of expectations, desires, and constituencies into its strategic direction and planning processes. In this case, an organization considers social responsibility an essential component of its vision, mission, values, and practices. BT, formerly known as British Telecom, is communicating its commitment to strategic responsibility with the theme of "Responsible Business," where BT is focused on tackling climate change, helping create a more inclusive society, and enabling sustainable economic growth. BT has been reporting on its social responsibility activities for

fifteen years, which makes the company a leader in accountability disclosure. Finally, firms may operate outside the continuum by taking the approach that social responsibility is being forced by government, nongovernmental organizations, consumer groups, and other stakeholders. In this case, any expenditures are considered a "tax" that occurs outside the firm's strategic direction and resource allocation process. Executives with this philosophy often maintain that customers will be lost, employees will become dissatisfied, and other detrimental effects will occur because of forced social responsibility.[21]

In this book, we will give many examples of firms that are at different places along this continuum to show how the pursuit of social responsibility is never ending. For example, Coca-Cola, the world's largest beverage firm, dropped out of the top ten in *Fortune* magazine's annual list of "America's Most Admired Companies" in 2000 and out of the top 100 in *Business Ethics* magazine's annual list of "100 Best Corporate Citizens" in 2001. For a company that had spent years on both lists, this was disappointing, but perhaps it was not unexpected, as the company was planning to eliminate 6,000 jobs, was facing a racial discrimination lawsuit, was still recovering from a product contamination scare in Europe, and was trying to salvage its relationships with its bottlers. Then, in 2002, Coca-Cola scored highest in the beverage industry on *Fortune* magazine's measure of social responsibility, and the *Business Ethics* magazine survey highlighted Coca-Cola's relationships with stakeholders. By a few years later, Coca-Cola lost most of the gains it had experienced in the U.S. rankings but upheld a top-twenty-five ranking in *Fortune* magazine's list of globally admired corporations. As with most multinational firms, Coca-Cola must continuously monitor a number of social responsibility issues and determine the most appropriate corporate response and action.[22] Figure 1.6 outlines the complexity of managing corporate citizenship in both host and home country environments.

Figure 1.6 Managing Social Responsibility in Home and Host Markets



Source: Naomi Gardberg and Charles Fombrun, "Corporate Citizenship: Creating Intangible Assets Across Institutional Environments," *Academy of Management Review* 31 (April 2006): 329–336.

Social Responsibility Requires a Stakeholder Orientation

The final element of our definition involves those to whom an organization is responsible, including customers, employees, investors and shareholders, suppliers, governments, communities, and many others. These constituents have a stake in, or claim on, some aspect of a company's products, operations, markets, industry, and outcomes and thus are known as **stakeholders.** We explore the roles and expectations of stakeholders in Chapter 2. Companies that consider the diverse perspectives of these constituents in their daily operations and strategic planning are said to have a stakeholder orientation, meaning that they are focused on stakeholders' concerns. Adopting this orientation is part of the social responsibility philosophy, which implies that business is fundamentally connected to other parts of society and must take responsibility for its effects in those areas. Table 1.2 examines the relationship between stakeholder perspectives and strategic, minimal/compliance, and forced responsibility.[23]

R. E. Freeman, one of the earliest writers on stakeholder theory, maintains that business and society are "interpenetrating systems," in that each affects and is affected by the other.[24] For example, Kingfisher, the operator of more than 600 home-improvement retail stores in Europe and Asia, developed a formal process for securing stakeholder input on a variety of issues, including child labor, fair wages, environmental impact, and equal opportunity. To develop a vision and key objectives in these areas, Kingfisher confers with suppliers, store managers, employees, customers, government representatives, and other relevant stakeholders. For example, the firm recently met with seventy suppliers in China to discuss factory working conditions and conducted focus groups in the United Kingdom to discover customers' main social responsibility concerns. Every quarter, Kingfisher's eleven operating companies complete a 165-point questionnaire over the firm's social responsibility focus areas, including product stewardship, energy management, sustainable operation, supply chain management, equality and diversity, and community investment. Health and safety issues are handled by a separate function. The survey results enable Kingfisher to rate its progress on the six issues from (1) minimum action to (3) leadership position in the industry and community.[25] Kingfisher largely strengthened its dedication and efforts in the 1990s, when social responsibility and the requisite stakeholder orientation became more popular and more generally accepted within the corporate community. Many events have led to this era of increasing accountability and responsibility.

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"Business and society are interpenetrating systems, in that each affects and is affected by the other."

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DEVELOPMENT OF SOCIAL RESPONSIBILITY

In 1959, Harvard economist Edward Mason asserted that business corporations are "the most important economic institutions."[26] His declaration implied that companies probably affect the community and society as much, or perhaps more, in social terms as in monetary, or financial, terms. For example, most businesses use advertising to convey messages that have an economic impact but also have a social meaning. As an extreme example, when Benetton decided to use convicted felons who had been given death sentences in an advertising campaign, many people were outraged. The Italian clothier had a history of using cutting-edge advertising to comment on social ideas and political issues, but some people felt that this campaign went too far. Other controversies surrounded campaigns that included photographs of a dead soldier's bloody uniform, three human hearts, condoms, and victims of HIV/AIDS. Benetton's original goal was to open a dialog on the controversial issue of the death penalty, but criticism of the campaign was rampant and at least one major retailer dropped its contract with Benetton as a result. While Benetton's sales have continued to be challenged by other European clothiers, the retailer has diminished the shock value of its advertising. However, the company continues to focus on cultural and social issues through its advertising, often partnering with nonprofit organizations. Benetton has promoted a wide variety of causes, including protecting endangered species and reducing world hunger and poverty.[27]

Although most companies do not go to the extremes that Benetton does, companies do influence many aspects of our lives, from the workplace to the natural environment. This influence has led many people to conclude that companies' actions should be designed to benefit employees, customers, business partners, and the community as well as shareholders. Social responsibility has become a benchmark for companies today.[28] However, these expectations have changed over time. For example, the first corporations in the United States were granted charters by various state governments because they were needed to serve an important function in society, such as transportation, insurance, water, or banking services. In addition to serving as a "license to operate," these charters specified the internal structure of these firms, allowing their actions to be more closely monitored.[29] During this period, corporate charters were often granted for a limited period of time because many people, including legislators, feared the power that corporations could potentially wield. It was not until the mid-1800s that profit and responsibility to stockholders became major corporate goals.[30]

After World War II, as many large U.S. firms came to dominate the global economy, their actions inspired imitation in other nations. The definitive external characteristic of these firms was their economic dominance. Internally, they were marked by the virtually unlimited autonomy afforded to their top managers. This total discretion meant that these firms' top managers had the luxury of not having to answer much for their actions.[31] In the current business mind-set, such total autonomy would be viewed as a hindrance to social responsibility because there is no effective system of checks and balances. In Chapter 3, we elaborate on corporate governance, the process of control and accountability in organizations that is necessary for social responsibility.

In the 1950s, the 130 or so largest companies in the United States provided more than half of the country's manufacturing output. The top 500 firms accounted for almost two-thirds of the country's nonagricultural economic activity.[32] United States productivity and technological advancements also dramatically outpaced those of global competitors, such as Japan and Western Europe. For example, the level of production in the United States was twice as high as that in Europe and quadruple that in Japan. The level of research and development carried out by U.S. corporations was also well ahead of overseas firms. For these reasons, the United States was perceived as setting a global standard for other nations to emulate.

The power of these large U.S. corporations was largely mirrored by the autonomy of their top managers.[33] This autonomy could be characterized as "largely unchecked," as most such managers had the authority to make whatever decisions they thought necessary. Because of the relative lack of global competition and shareholder input during the 1950s and 1960s, there were few formal governance procedures to restrain management's actions. However, this laxity permitted management to focus not just on profit margins but also on a wide variety of discretionary activities, including charitable giving. Thus, it is interesting to note that although top managers' actions were rarely questioned or scrutinized, these managers did use their company's resources to address broader concerns than self-interest. Although the general public was sometimes suspicious of the power held by top managers in large corporations, it also recognized the gains it received from these corporations, such as better products, more choices, good employee salaries, and other such benefits. During this period, many corporations put money into their communities. Although these firms had high executive pay, organizational inefficiencies, high overhead costs, and various other problems, they were quick to share their gains. Employees in the lower echelons of these large corporations received substantially higher wages and better benefits than the national average. This practice has continued into the present; for example, what major automobile manufacturers pay their workers is 50 percent above the national average and 40 percent above the manufacturing national average.[34]

During the 1950s and 1960s, these companies provided other benefits that are often overlooked. Their contributions to charities, the arts, culture, and other community activities were often quite generous. They spent considerable sums of money on research that was more beneficial to the industry or to society than to the companies' own profitability. For example, the lack of competition meant that companies had the profits to invest in higher-quality products for consumer and industrial use. Although the government passed laws that required companies to take actions to protect the natural environment, make products safer, and promote equity and diversity in the workplace, many companies voluntarily adopted responsible practices and did not constantly fight government regulations and taxes. These corporations once provided many of the services that are now provided by the government in the United States. For example, during this period, the U.S. government spent less than the government of any other industrialized nation on such things as pensions and health benefits, as these were provided by companies rather than by the government.[35] In the 1960s and 1970s, however, the business landscape changed.

Economic turmoil during the 1970s and 1980s almost eliminated the old corporations. Venerable firms that had dominated the economy in the 1950s and 1960s became extinct or ineffective as a result of bankruptcies, takeovers, or other threats, including high energy prices and an influx of foreign competitors. The stability experienced by the U.S. firms of mid-century dissolved. During the 1960s and 1970s, the *Fortune* 500 had a relatively low turnover of about 4 percent. By 1990, however, one-third of the companies in the *Fortune* 500 of 1980 had disappeared, primarily as a result of takeovers and bankruptcies. The threats and instability led companies to protect themselves from business cycles by becoming more focused on their core competencies and reducing their product diversity. To combat takeovers, many companies adopted flatter organizational hierarchies. Flatter organizations meant workforce reduction but also entailed increasing empowerment of lower-level employees.

Thus, the 1980s and 1990s brought a new focus on profitability and economies of scale. Efficiency and productivity became the primary objectives of business. This fostered a wave of downsizing and restructuring that left some people and communities without financial security. Before 1970, large corporations employed about one of every five Americans, but by the 1990s, they employed only one in ten. The familial relationship between employee and employer disappeared, and along with it went employee loyalty and company promises of lifetime employment. Companies slashed their payrolls to reduce costs, and employees changed jobs more often. Workforce reductions and "job hopping" were almost unheard of in the 1960s but had become commonplace two decades later. These trends made temporary employment and contract work the fastest-growing forms of employment throughout the 1990s.[36]

Along with these changes, top managers were stripped of their former freedom. Competition heated up, and both consumers and stockholders grew more demanding. The increased competition led business managers to worry more and more about the bottom line and about protecting the company. Escalating use of the Internet provided unprecedented access to information about corporate decisions and conduct and fostered communication among once unconnected groups, furthering consumer awareness and shareholder activism. Consumer demands put more pressure on companies and their employees. The education and activism of stockholders had top management fearing for their jobs. Throughout the last two decades of the twentieth century, legislators and regulators initiated more and more regulatory requirements every year. These factors resulted in difficult trade-offs for management.

The benefits of the corporations of old were largely forgotten in the 1980s, but concern for corporate responsibilities was renewed in the 1990s. Partly as a result of business scandals and Wall Street excesses in the 1980s, many industries and companies decided to pursue and expect more responsible and respectable business practices. Many of these practices focused on creating value for stakeholders through more effective processes and decreased the narrow and sole emphasis on corporate profitability. At the same time, consumers and employees became less interested in making money for its own sake and turned toward intrinsic rewards and a more holistic approach to life and work.[37] This resulted in increased interest in the development of human and intellectual capital; the

installation of corporate ethics programs; the development of programs to promote employee volunteerism in the community, strategic philanthropy efforts, and trust in the workplace; and the initiation of a more open dialog between companies and their stakeholders.

Despite major advances in the 1990s, the sheer number of corporate scandals at the beginning of the twenty-first century prompted a new era of social responsibility. The downfall of Enron, WorldCom, and other corporate stalwarts caused regulators, former employees, investors, nongovernmental organizations, and ordinary citizens to question the role and integrity of big business and the underlying economic system. Federal legislators passed the Sarbanes-Oxley Act to overhaul securities laws and governance structures. The new Public Company Accounting Oversight Board was implemented to regulate the accounting and auditing profession. Harvey Pitt, the Securities and Exchange Commission chair, resigned after a series of gaffes reduced his ability to lead in turbulent times. America's home-decorating guru, Martha Stewart, was indicted on charges related to the sale of ImClone stock. The ImClone CEO, Sam Waksal, lost his job amid insider trading and securities fraud charges and began serving a seven-year sentence in mid-2003. Newspapers, business magazines, and news websites devoted entire sections—often labeled as Corporate Scandal, Year of the Apology, or Year of the Scandal—to the trials and tribulations of executives, their companies and auditors, and stock analysts.

Near the end of the first decade of the twenty-first century, the global economy slowed in the wake of numerous financial scandals and widespread corporate losses. Amidst growing resentment over executive pay, Wall Street maneuverings, Ponzi schemes, and government bailouts of failing firms, *The Economist* opined, "Another tough question will be what to do about those costly corporate-citizenship commitments that big firms have made in recent years. These commitments—such as Coca-Cola's investments in water projects in developing countries—have lately been justified as a core part of long-term profit-maximising strategy. The coming year will test whether they really believe that."[38] Table 1.3 lists some of the "lessons learned" from the economic debacle of 2008 and 2009.

Mark Lilla, a professor at the University of Chicago, notes that perceptions of business and society often represent the confluence of the ideas of two decades, the 1960s and 1980s. From the 1960s, we gained a stronger interest in social issues and in how all parts of society can help prevent these issues from arising and resolve them when they do. The economic upheaval and excess of the 1980s alerted many people to the influence that companies have on society when the desire to make money profoundly dominates their activities.[39] The economic growth and gains of the 1990s brought sharp reminders of the 1980s, involving both exorbitant executive salaries and exorbitant executive personal wealth, which eventually took their toll on markets and companies.[40] Events of the past and the scandalous start to the twenty-first century brought calls for a stronger balance between the global market economy and social responsibility, social justice, and cohesion. This is evident on a global scale as special-interest groups, companies, human rights activists, and governments strive to balance worldwide economic growth and spending with social, environmental, technological, and cultural issues.

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GLOBAL NATURE OF SOCIAL RESPONSIBILITY

Although many forces have shaped the debate on social responsibility, the increasing globalization of business has made it an international concern. For example, as people around the world celebrated the year 2000, there was also a growing backlash against big business, particularly multinational corporations. A wide variety of protests were held around the globe, but their common theme was criticism of the increasing power and scope of business. The corporate scandals fortified this criticism and awoke even the staunchest of business advocates. Questions of corruption, environmental protection, fair wages, safe working conditions, and the income gap between rich and poor were posed. Many critics and protesters believe that global business involves exploitation of the working poor, destruction of the planet, and a rise in inequality.[41] Ruy Teixeira, a pollster from the Century Foundation, says, "There's a widespread sense of unfairness and distrust today, where people think companies are not quite playing by the rules." *Business Week* weighed in with a cover story entitled

"Too Much Corporate Power?"[42] A Gallup poll showed that Americans were highly distrustful of executives in large businesses. Thirty-eight percent felt that big business had become a threat to the U.S. future, and nearly 80 percent believed that executives would take improper actions to benefit themselves.[43] More recent polls indicate that trust is rebounding in certain countries, but companies are still vulnerable to the ramifications of distrust.[44] In an environment where consumers distrust business, greater regulation and lower brand loyalty are likely results. We discuss more of the relationship between social responsibility and business outcomes later in this chapter.

"Although many forces have shaped the debate on social responsibility, the increasing globalization of business has made it an international concern."

The globalization of business is fodder for many critics, who believe the movement is detrimental because it destroys the unique cultural elements of individual countries, concentrates power within developed nations and their corporations, abuses natural resources, and takes advantage of people in developing countries. Multinational corporations are perhaps most subject to criticism because of their size and scope. More than half of the world's top 100 economies are not national economies at all; they are corporations like Wal-Mart and Royal Dutch Shell. For example, General Motor's revenues are roughly the size of the combined revenues of Hungary, Ireland, and New Zealand. Table 1.4 lists the top fifty economies in the world, which includes a combination of countries and companies. Because of the economic and political power they potentially wield, the actions of large, multinational companies are under scrutiny by many stakeholders. For example, a victims' advocate group charged that Unocal, a large U.S.-based oil and gas exploration and production firm, knew that the government of Myanmar forced peasants to help build a pipeline for the company. Peasants who resisted the military government were tortured or killed. Unocal has denied knowing of the oppression but faced charges under a 1789 U.S. law called the Alien Tort Claims Act. The case was eventually settled for an undisclosed amount.[45] Most allegations by anti-globalization protestors are not this extreme, but the issues are still of consequence. For example, the pharmaceutical industry has long been criticized for excessive pricing, interference with clinical evaluations, some disregard for developing nations, and aggressive promotional practices. Critics have called on governments, as well as public health organizations, to influence the industry in changing some of its practices.[46]

Advocates of the global economy counter these allegations by pointing to increases in overall economic growth, new jobs, new and more effective products, and other positive effects of global business. Although these differences of opinion provide fuel for debate and discussion, the global economy probably, in the words of author John Dalla Costa, "holds much greater potential than its critics

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think, and much more disruption than its advocates admit. By definition, a global economy is as big as it can get. This means that the scale of both the opportunity and the consequences are at an apex."[47] In responding to this powerful situation, companies around the world are increasingly implementing programs and practices that strive to achieve a balance between economic responsibilities and other social responsibilities. The Nestlé Company, a global foods manufacturer and marketer, published the Nestlé Corporate Business Principles in 1998 and revised them in 2002 and 2004. These principles serve as a management tool for decision making at Nestlé and have been translated into over forty languages. The updated principles are consistent with the United Nations' Global Compact, an accord that covers environmental standards, human rights, and labor conditions.[48] We explore the global context of social responsibility more fully in Chapter 12.

In most developed countries, social responsibility involves stakeholder accountability and the economic, legal, ethical, and philanthropic dimensions discussed earlier in the chapter. However, a key question for implementing social responsibility on a global scale is: "Who decides on these responsibilities?" Many

executives and managers face the challenge of doing business in diverse countries while attempting to maintain their employers' corporate culture and satisfy their expectations. Some companies have adopted an approach in which broad corporate standards can be adapted at a local level. For example, a corporate goal of demonstrating environmental leadership could be met in a number of different ways depending on local conditions and needs. The Compaq Computer Corporation, which merged with Hewlett-Packard in 2002, implemented its goal of environmental responsibility in different ways depending on the needs in various regions of the world. In North America, Compaq focused on recycling and reducing waste. In Latin America, corporate resources were devoted to wastewater treatment and cleanup of contaminated soil. Efforts in the firm's Asia-Pacific division included the distribution of "green kits" to educate managers, employees, and other stakeholders about Compaq's commitment to environmental leadership.[49]

Global social responsibility also involves the confluence of government, business, trade associations, and other groups. For example, countries that belong to the Asia-Pacific Economic Cooperation (APEC) are responsible for half the world's annual production and trade volume. As APEC works to reduce trade barriers and tariffs, it has also developed meaningful projects in the areas of sustainable development, clean technologies, workplace safety, management of human resources, and the health of the marine environment. This powerful trade group has demonstrated that economic, social, and ethical concerns can be tackled simultaneously.[50] Like APEC, other trade groups are also exploring ways to enhance economic productivity within the context of legal, ethical, and philanthropic responsibilities.

Another trend involves business leaders becoming "cosmopolitan citizens" by simultaneously harnessing their leadership skills, worldwide business connections, access to funds, and beliefs about human and social rights. Bill Gates, the founder of Microsoft, is no longer active day-to-day in the company, as he and his wife spearhead the Bill and Melinda Gates Foundation to tackle AIDS, poverty, malaria, and the need for educational resources. Patrick Cescau of Unilever is leading the British food giant to establish sustainable and responsible business processes in developing countries. Celso Grecco, a former advertising executive in Brazil, founded the Social and Environmental Stock Exchange to meet the needs of investors and donors for transparency as they consider nonprofit needs and opportunities. Donors find and fund nonprofits through a website, which also includes extensive reporting and accountability for each nonprofit's effectiveness and efficiency. These business leaders are acting as agents to ensure the economic promises of globalization are met with true concern for social and environmental considerations. In many cases, such efforts supplant those historically associated with government responsibility and programs.[51]

In sum, progressive global businesses and executives recognize the "shared bottom line" that results from the partnership among business, communities, government, customers, and the natural environment. In the Millennium Poll, a survey of more than 25,000 citizens in twenty-three countries, 66 percent of the respondents indicated that they want companies to go beyond their traditional role of making a profit, paying taxes, and providing jobs. More than half the respondents said that they believe their national government and companies

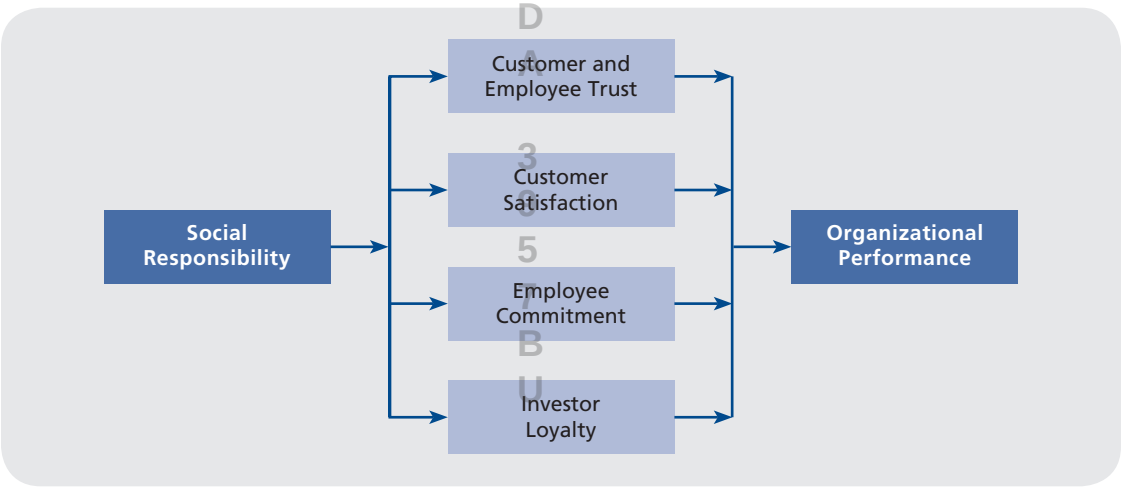
should focus more on social and environmental goals than on economic goals in the first decade of the new millennium.[52] This survey reiterates our philosophy that business is accountable to a variety of stakeholders and has a number of responsibilities. Thus, our concept of social responsibility is applicable to businesses around the world, although adaptations of implementation and other details on the local level are definitely required. In companies around the world, there is also the recognition of the relationship between strategic social responsibility and benefits to society and organizational performance.

BENEFITS OF SOCIAL RESPONSIBILITY

The importance of social responsibility initiatives in enhancing stakeholder relationships, improving performance, and creating other benefits has been debated from many different perspectives.[53] Many business managers view such programs as costly activities that provide rewards only to society at the expense of the bottom line. Another view holds that some costs of social responsibility cannot be recovered through improved performance. Although it is true that some aspects of social responsibility may not accrue directly to the bottom line, we believe that organizations benefit both directly and indirectly over the long run from these activities. Moreover, ample research evidence demonstrates that there are many rewards for companies that implement such programs.

Some of the specific rewards include increased efficiency in daily operations, greater employee commitment, higher product quality, improved decision making, increased customer loyalty, and improved financial performance. In short, companies that establish a reputation for trust, fairness, and integrity develop a valuable resource that fosters success, which then translates to greater financial performance (see Figure 1.7). This section provides evidence that resources invested in social responsibility programs reap positive outcomes for organizations and stakeholders.

Figure 1.7 The Role of Social Responsibility in Performance



Trust

"Trust is the glue that holds organizations together and allows them to focus on efficiency, productivity, and profits."

Trust is the glue that holds organizations together and allows them to focus on efficiency, productivity, and profits. According to Stephen R. Covey, author of *The 7 Habits of Highly Effective People,* "Trust lies at the very core of effective human interactions. Compelling trust is the highest form of human motivation. It brings out the very best in people, but it takes time and patience, and it doesn't preclude the necessity to train and develop people so their competency can rise to that level of trust." When trust is low, organizations decay and relationships deteriorate, resulting in infighting, playing politics within the organization, and general inefficiency. Employee commitment to the organization declines, product quality suffers, employee turnover skyrockets, and customers turn to more trustworthy competitors.[54]

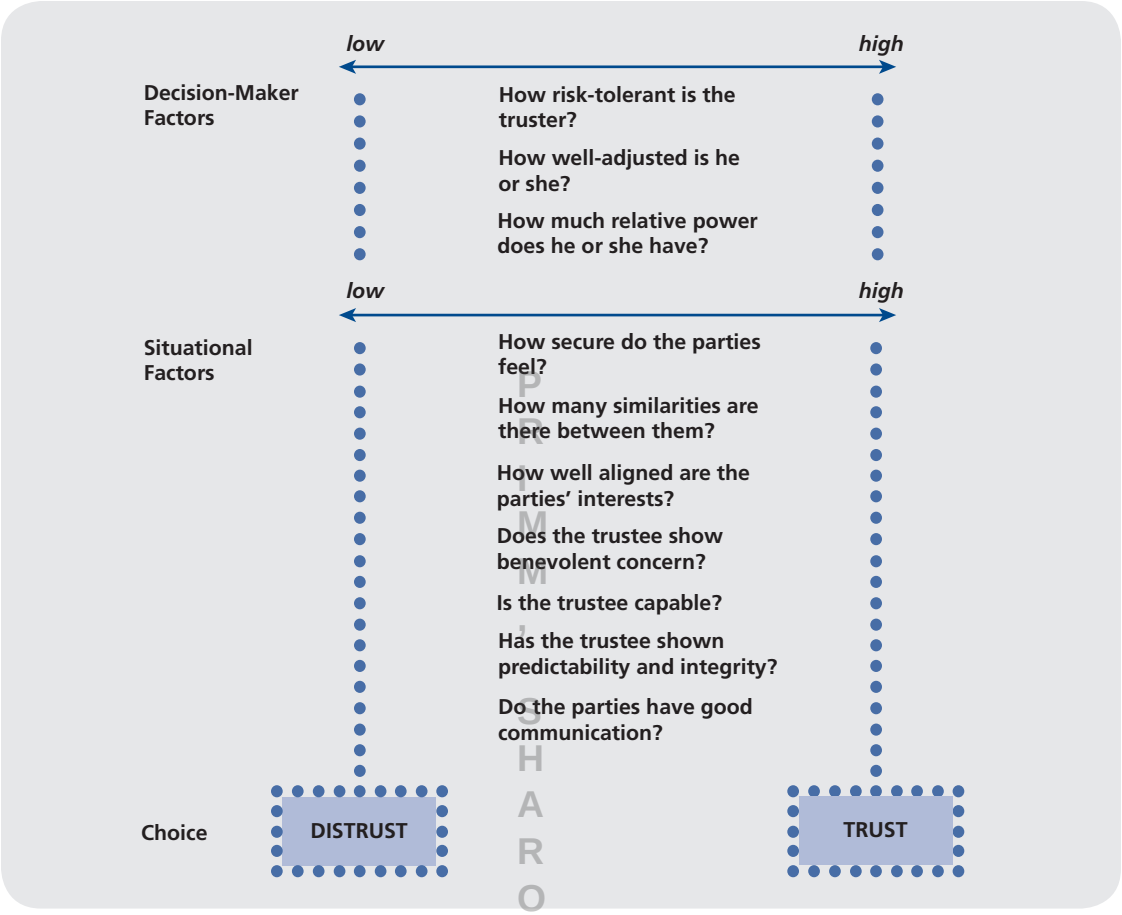
In a trusting work environment, however, employees can reasonably expect to be treated with respect and consideration by both their peers and their superiors. They are also more willing to rely and act on the decisions and actions of their coworkers. Thus, trusting relationships between managers and their subordinates and between peers contribute to greater decision-making efficiencies. Research by the Ethics Resource Center indicates that this trust is pivotal for supporting an ethical climate. Employees of an organization with a strong ethical culture are much more likely to report misconduct but are much less likely to observe misconduct than employees in firms with a weak ethical culture.[55] Figure 1.8 provides a model of ten key factors that affect how employees develop trust or distrust in the workplace. Three factors relate to the employee as the decision maker; the remaining seven factors reflect the specific work situation that the employee experiences and evaluates.

Trust is also essential for a company to maintain positive long-term relationships with customers. A study by Cone-Roper reported that three of four consumers say they avoid or refuse to buy from certain businesses. Poor service was the number one reason cited for refusing to buy, but business conduct was the second reason that consumers gave for avoiding specific companies.[56] For example, after the *Exxon Valdez* oil spill in 1989, certain groups and individual citizens aggressively boycotted Exxon because of its response to the environmental disaster.

Customer Satisfaction

The prevailing business philosophy about customer relationships is that a company should strive to market products that satisfy customers' needs through a coordinated effort that also allows the company to achieve its own objectives. It is well accepted that customer satisfaction is one of the most important factors for business success. Although companies must continue to develop and adapt

Figure 1.8 To Trust or Not to Trust?



Source: Robert F. Hurley, "The Decision to Trust," *Harvard Business Review* 84 (September 2006): 55-62.

products to keep pace with consumers' changing desires, it is also crucial to develop long-term relationships with customers. Relationships built on mutual respect and cooperation facilitate the repeat purchases that are essential for success. By focusing on customer satisfaction, a business can continually strengthen its customers' trust in the company, and as their confidence grows, this in turn increases the firm's understanding of their requirements.

In a Cone-Roper national survey of consumer attitudes, 81 percent of consumers indicated they would be likely to switch to brands associated with a good cause if price and quality were equal. These results were up 11 percent from the same study in 1997 and show that consumers take for granted that they can buy high-quality products at low prices; therefore, companies need to stand out as doing something—something that demonstrates their commitment to society. The survey also indicated that consumers believed companies should continue supporting causes, even during an economic downturn.[57] A study by Harris Interactive Inc. and the Reputation Institute reported that one-quarter of

the respondents had boycotted a firm's products or lobbied others to do so when they did not agree with the firm's policies or activities.[58] Another way of looking at these results is that irresponsible behavior could trigger disloyalty and refusals to buy, whereas good social responsibility initiatives could draw customers to a company's products. For example, many firms use cause-related marketing programs to donate part of a product's sales revenue to a charity that is meaningful to the product's target market. Among the best-known cause-related marketing programs is Avon's "pink ribbon," which we discuss in Chapter 10.

Employee Commitment

Employee commitment stems from employees who believe their future is tied to that of the organization and are willing to make personal sacrifices for the organization.[59] Hershey Foods is an example of a business that historically drew substantial benefits from its long-lasting commitment to social responsibility. Every year, Hershey employees receive a booklet entitled *Key Corporate Policies,* which describes the values—fairness, integrity, honesty, respect—at the heart of the company's way of doing business. Employees are asked to sign the booklet and are made aware of procedures for reporting concerns about proper conduct or policies in the workplace. These efforts help employees understand the importance of developing and maintaining respectful relationships with both colleagues and customers. Because they support the idea that customers should receive full value for their money, employees are also committed to delivering the highest quality standards possible. Today, Hershey claims about 43 percent of the U.S. chocolate market.[60]

When companies fail to provide value for their employees, loyalty and commitment suffer. A survey by Walker Information Global Network found low levels of employee loyalty and commitment worldwide. The study, which surveyed thousands of employees in thirty-two countries, found that only one in three workers is "truly loyal" to the organization for which he or she works.[61] Employees spend many of their waking hours at work; thus, an organization's commitment to goodwill and respect of its employees usually results in increased employee loyalty and support of the company's objectives.

Investor Loyalty

Investors look at a corporation's bottom line for profits or the potential for increased stock prices. To be successful, relationships with stockholders and other investors must rest on dependability, trust, and commitment. But investors also look for potential cracks or flaws in a company's performance. Companies perceived by their employees as having a high degree of honesty and integrity had an average three-year total return to shareholders of 101 percent, whereas companies perceived as having a low degree of honesty and integrity had a three-year total return to shareholders of just 69 percent.[62] When the Securities and Exchange Commission investigated Sunbeam for improprieties in accounting procedures, the company's stock plummeted from a high of $54 to almost worthless. The negative publicity associated with the alleged misconduct had an enormous impact on investors' confidence in Sunbeam—a previously trusted and respected U.S. brand.[63]

Many shareholders are also concerned about the reputation of companies in which they invest. Investors have even been known to avoid buying the stock of firms they view as irresponsible. For example, fifteen mutual fund managers announced a boycott of Mitsubishi stock after the Japanese firm refused to cancel a plan to build a factory on a Mexican lagoon that is also a major breeding site for gray whales.[64] Many socially responsible mutual funds and asset management firms are available to help concerned investors purchase stock in responsible companies. These investors recognize that corporate responsibility is the foundation for efficiency, productivity, and profits. On the other hand, investors know that fines or negative publicity can decrease a company's stock price, customer loyalty, and long-term viability. Consequently, many chief executives spend a great deal of time communicating with investors about their firms' reputations and financial performance and trying to attract them to their stock.

The issue of drawing and retaining investors is a critical one for CEOs, as roughly 50 percent of investors sell their stock in companies within one year, and the average household replaces 80 percent of its common stock portfolio each year.[65] This focus on short-term gains subjects corporate managers to tremendous pressure to boost short-term earnings, often at the expense of long-term strategic plans. The resulting pressure for short-term gains deprives corporations of stable capital and forces decision makers into a "quarterly" mentality. Conversely, those shareholders willing to hold onto their investments are more willing to sacrifice short-term gains for long-term income. Attracting these long-term investors shields companies from the vagaries of the stock market and gives them flexibility and stability in long-term strategic planning. In the aftermath of the recent business scandals, however, trust and confidence in financial audits and published financial statements were severely shaken. Membership in grassroots investment clubs declined, retail stock investments declined, and investors called for increased transparency in company operations and reports.[66] Gaining investors' trust and confidence is vital for sustaining a firm's financial stability.

The Bottom Line: Profits

Social responsibility is positively associated with return on investment, return on assets, and sales growth.[67] A company cannot continuously be socially responsible and nurture and develop an ethical organizational culture unless it has achieved financial performance in terms of profits. Businesses with greater resources—regardless of their staff size—have the ability to promote their social responsibility along with serving their customers, valuing their employees, and establishing trust with the public.

Many studies have identified a positive relationship between social responsibility and financial performance.[68] For example, a survey of the 500 largest public corporations in the United States found that those that commit to responsible behavior and emphasize compliance with codes of conduct show better financial performance.[69] A managerial focus on stakeholder interests can affect financial performance, although the relationships between stakeholders and financial performance vary and are very complex.[70] A meta-analysis

of twenty-five years of research identified thirty-three studies (63 percent) demonstrating a positive relationship between corporate social performance and corporate financial performance, five studies (about 10 percent) indicating a negative relationship, and fourteen studies (27 percent) yielding an inconclusive result or no relationship.[71] Research on the effects of legal infractions suggests that the negative effect of misconduct does not appear until the third year following a conviction, with multiple convictions being more harmful than a single one.[72]

"Many studies have identified a positive relationship between social responsibility and financial performance."

In summary, a company with strong efforts and results in social responsibility is generally not penalized by market forces, including the intention of consumers to purchase the firm's products. Social responsibility efforts and performance serve as a reputational lever that managers may use to influence stakeholders. A high-performing company may also receive endorsements from governmental officials or other influential groups that are more believable than company messages. A company with a strong social responsibility orientation often becomes quite proactive in managing and changing conditions that yield economic benefits, including avoiding litigation and increased regulation. Finally, corporate social performance and corporate financial performance are positively correlated. These findings subjugate the belief that social responsibility is just a "cost factor" for business and has no real benefits to the firm.[73]

National Economy

An often-asked question is whether business conduct has any bearing on a nation's overall economic performance. Many economists have wondered why some market-based economies are productive and provide a high standard of living for their citizens, whereas other market-based economies lack the kinds of social institutions that foster productivity and economic growth. Perhaps a society's economic problems can be explained by a lack of social responsibility. Trust stems from principles of morality and serves as an important "lubricant of the social system."[74] Many descriptions of market economies fail to take into account the role of such institutions as family, education, and social systems in explaining standards of living and economic success. Perhaps some countries do a better job of developing economically and socially because of the social structure of their economic relationships.

Social institutions, particularly those that promote trust, are important for the economic well-being of a society.[75] Society has become economically successful over time "because of the underlying institutional framework persistently reinforcing incentives for organizations to engage in productive activity."[76] In some developing countries, opportunities for political and economic development

have been stifled by activities that promote monopolies, graft, and corruption and by restrictions on opportunities to advance individual, as well as collective, well-being. Author L. E. Harrison offers four fundamental factors that promote economic well-being: "(1) The degree of identification with others in a society—the radius of trust, or the sense of community; (2) the rigor of the ethical system; (3) the way authority is exercised within the society; and (4) attitudes about work, innovation, saving, and profit."[77]

Countries with strong trust-based institutions foster a productivity-enhancing environment because they have ethical systems in place that reduce transaction costs and make competitive processes more efficient and effective. In market-based systems with a great degree of trust, such as Japan, Great Britain, Canada, the United States, and Sweden, highly successful enterprises can develop through a spirit of cooperation and the ease in conducting business.[78]

Superior financial performance at the firm level within a society is measured as profits, earnings per share, return on investment, and capital appreciation. Businesses must achieve a certain level of financial performance to survive and reinvest in the various institutions in society that provide support. On the other hand, at the institutional or societal level, a key factor distinguishing societies with high standards of living is trust-promoting institutions. The challenge is to articulate the process by which institutions that support social responsibility can contribute to firm-level superior financial performance.[79]

"A key factor distinguishing societies with high standards of living is trust-promoting institutions."

A comparison of countries that have high levels of corruption and underdeveloped social institutions with countries that have low levels of corruption reveals differences in the economic well-being of the country's citizens. Transparency International, an organization discussed earlier, publishes an annual report on global corruption that emphasizes the effects of corruption on the business and social sectors. This annual review recently focused on corruption in health-care systems and discovered five key types of corruption, which are listed in Table 1.5. Since health care is managed through a system of both public expenditures and private investment, the industry is especially interesting to examine. Transparency International concluded, "Corruption in the health sector deprives those most in need of essential medical care and helps spawn drug-resistant strains of deadly diseases." The organization recognizes that health care is largely affected by a country's economic well-being and social institutions that support ethics and responsibility. Countries with better access to quality health care are more likely to be economically and socially stable. As stated several times in this chapter, conducting business in an ethical and responsible manner generates trust and leads to relationships that promote higher productivity and a positive cycle of effects.[80]

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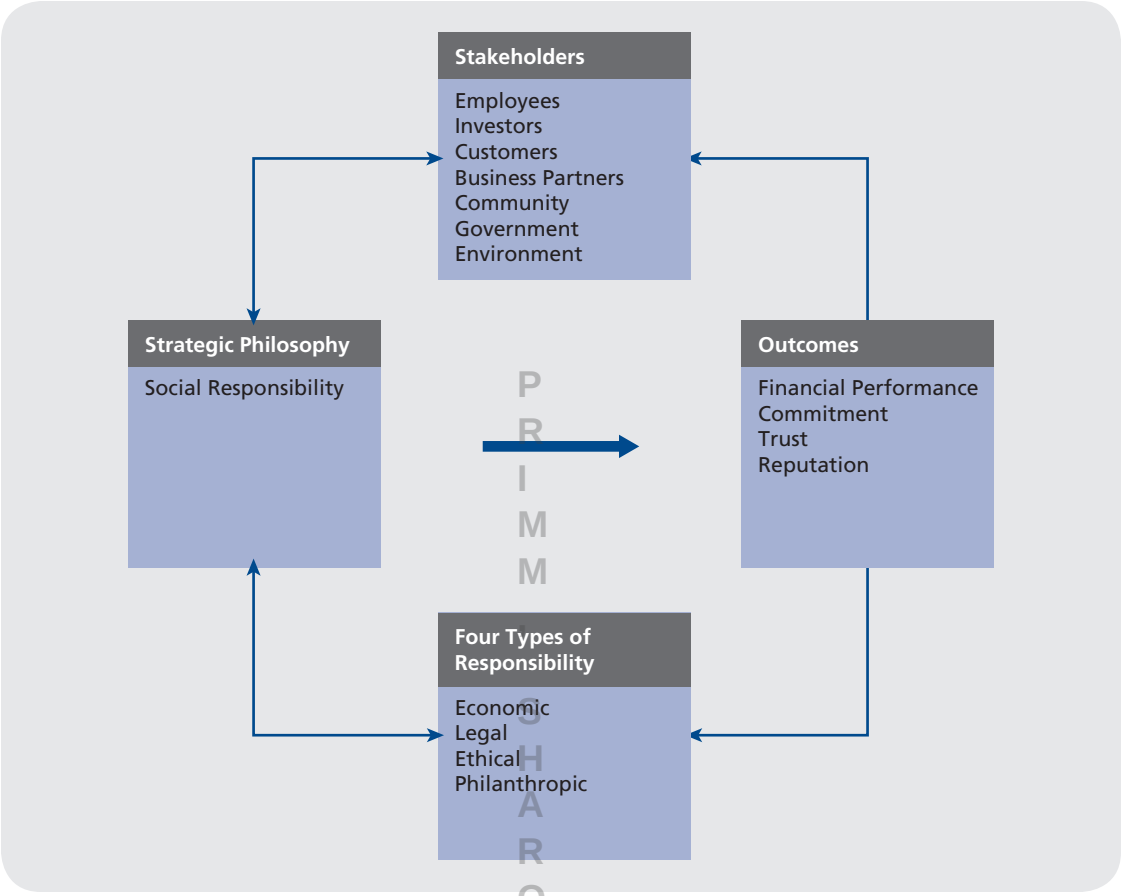
FRAMEWORK FOR STUDYING SOCIAL RESPONSIBILITY

The framework we developed for this text is designed to help you understand how businesses fulfill social expectations. Figure 1.9 illustrates the concept that social responsibility is a process. It begins with the social responsibility philosophy, includes the four levels of social responsibilities, involves many types of stakeholders, and ultimately results in both short- and long-term performance benefits. As we discussed earlier, social responsibility must have the support of top management—both in words and in deeds—before it can become an organizational reality. Like many organizations, Cummins Engine Company has faced a number of challenges over the past several decades. Cummins, founded in 1919 and based in Columbus, Indiana, is currently the world leader in the design and manufacture of diesel engines. Cummins was Columbus's largest employer for many years, and the firm provided many benefits to the community, including job opportunities and economic growth.

Throughout its first sixty years of business, Cummins also performed well for its shareholders. The company enjoyed increased profits for forty-three consecutive years, until 1979. Cummins suffered during the 1980s, however, and it had

Figure 1.9 Social Responsibility Model



Source: Adapted from Charles J. Fombrun, "Three Pillars of Corporate Citizenship," in *Corporate Global Citizenship,* ed. Noel M. Tichy, Andrew R. McGill, and Lynda St. Clair (San Francisco: New Lexington Press, 1997), pp. 27–42.

to fend off the threat of hostile takeovers. Its stock price plummeted and stock owners demanded short-run profits at the expense of the company's long-term goals. The founding family repelled one takeover attempt with a large infusion of capital and thwarted another attempt by expanding the firm's shareholder-rights program. Despite its financial woes, Cummins remained focused on research and development, managed to produce a more environmentally friendly diesel engine, and even engaged in limited charitable giving. These actions were consistent with the personality and beliefs of Henry Schacht, Cummins's CEO for more than twenty years, who believed that the company should not aim solely at profit but rather should develop a balanced set of values.

Although Schacht's beliefs provided a strong foundation, Cummins did not always achieve its social and economic goals. In 1983, for the first time ever, the company was forced to lay off some employees. Later in the decade, the company closed plants and laid off even more people. To reverse these trends, Schacht adopted a new business plan that included cooperation with unions,

former employees, and other firms to spur economic development. Expansion into Japan, India, and China soon followed.

Throughout this difficult period, Cummins still managed to donate to charities, participate in civic activities, and invest in employee programs and innovative benefits. For example, Cummins is one of several companies implementing steps to reduce workloads and improve work/life balance, which we discuss in Chapter 7. By the end of the twentieth century, Cummins was back on track financially, with sales topping $6.6 billion, up 6 percent from the prior year. Sales in mid-2000s nearly reached $10 billion. Cummins's drive to build positive relationships with its employees, its customers, and its community led *Business Ethics* to rank the firm on the magazine's list of the "100 Best Corporate Citizens. By the global recession of 2009, Cummins was facing revenue shortfalls and employee layoffs, but still received the highest possible rating for its corporate governance practices from GovernanceMetrics International (GMI)."[81]

Once the social responsibility philosophy is accepted, the four aspects of corporate social responsibility are defined and implemented through programs that incorporate stakeholder input and feedback. Cummins, like other companies, is aware of the potential costs associated with addressing social responsibility issues and stakeholder requirements. When social responsibility programs are put into action, they have both immediate and delayed outcomes.

Figure 1.10 depicts how the chapters of this book fit into our framework. This framework begins with a look at the importance of working with stakeholders to achieve social responsibility objectives. The framework also includes an examination of the influence on business decisions and actions of the legal, regulatory, and political environment; business ethics; and corporate governance. The remaining chapters of the book explore the responsibilities associated with specific stakeholders and issues that confront business decision makers today, including the process of implementing a social responsibility audit.

Strategic Management of Stakeholder Relationships

Social responsibility is grounded in effective and mutually beneficial relationships with customers, employees, investors, competitors, government, the community, and others who have a stake in the company. Increasingly, companies are recognizing that these constituents both affect and are affected by their actions. For this reason, many companies attempt to address the concerns of stakeholder groups, recognizing that failure to do so can have serious

"Many companies attempt to address the concerns of stakeholder groups, recognizing that failure to do so can have serious long-term consequences."

Figure 1.10 An Overview of This Book

long-term consequences. For example, the Connecticut Better Business Bureau revoked the membership of Priceline.com after the Internet company failed to address complaints related to misrepresentation of products, billing problems, and refunds.[82] Chapter 2 examines the types of stakeholders and their attributes, how stakeholders become influential, and the processes for integrating and managing stakeholders' influence on a firm. It also examines the impact of corporate reputation and crisis situations on stakeholder relationships.

Corporate Governance

Because both daily and strategic decisions affect a variety of stakeholders, companies must maintain a governance structure to ensure proper control of their actions and assign responsibility for those actions. In Chapter 3, we define corporate governance and discuss its role in achieving strategic social responsibility. Key governance issues addressed include the rights of shareholders, the accountability of top management for corporate actions, executive compensation, and strategic-level processes for ensuring that economic, legal, ethical, and philanthropic responsibilities are satisfied.

Legal, Regulatory, and Political Issues

In Chapter 4, we explore the complex relationship between business and government. Every business must be aware of and abide by the laws and regulations that dictate acceptable business conduct. This chapter also examines how business can influence government by participating in the public policy process. A strategic approach for legal compliance is also provided.

Business Ethics and Strategic Approaches to Improving Ethical Behavior

Because individual values are a component of organizational conduct, these findings raise concerns about the ethics of future business leaders. Chapters 5 and 6 are devoted to exploring the role of ethics in business decision making. These chapters explore business responsibilities that go beyond the conduct that is legally prescribed. We also examine the factors that influence ethical decision making and consider how companies can apply this understanding to increase their ethical conduct.

Employee Relations

In today's business environment, most organizations want to build long-term relationships with a variety of stakeholders, but particularly with employees—the focus of Chapter 7. Employees today want fair treatment, excellent compensation and benefits, and assistance in balancing work and family obligations. Raytheon developed a computer program called SilentRunner that can detect patterns of data activity that may reflect employee fraud, insider trading, espionage, or other unauthorized activity.[83] Critics, however, question whether the use of such software contributes to an environment of trust and commitment. Research has shown that committed and satisfied employees are more productive, serve customers better, and are less likely to leave their employers. These benefits are important to successful business performance, but organizations must be proactive in their human resources programs if they are to receive them.

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Pitney Bowes offers on- site health clinics, where employees get personalized service from nurse practitioners

Consumer Relations

Chapter 8 explores companies' relationships with consumers. This constituency is part of a firm's primary stakeholder group, and there are a number of economic, legal, ethical, and philanthropic responsibilities that

companies must address. Chapter 8 therefore considers the obligations that companies have toward their customers, including health and safety issues, honesty in marketing, consumer rights, and related responsibilities.

Community and Philanthropy

Chapter 9 examines community relations and strategic philanthropy, the synergistic use of organizational core competencies and resources to address key stakeholders' interests and to achieve both organizational and social benefits. Whereas traditional benevolent philanthropy involves donating a percentage of sales to social causes, a strategic approach aligns employees and organizational resources and expertise with the needs and concerns of stakeholders, especially the community. Strategic philanthropy involves both financial and nonfinancial contributions (employee time, goods and services, technology and equipment, and facilities) to stakeholders and reaps benefits for the community and company.

Technological Issues

Thanks to the Internet and other technological advances, we can communicate faster than ever before, find information on just about anything, and live longer, healthier lives. However, not all of the changes that occur as a result of new technologies are positive. Chapter 10 explores a wide range of technological issues. For example, because shopping via the Internet does not require a signature to verify transactions, online credit-card fraud is significantly greater than fraud through mail-order catalogs and traditional storefront retailers. A major identity theft ring in New York affected thousands of people. Members of the theft ring illegally obtained the credit records of consumers and then sold them to criminals for about $60 per record. The criminals used the credit records to obtain loans, drain bank accounts, and perform other fraudulent activities.[84]

Sustainability Issues

In Chapter 11, we dedicate an entire chapter to issues of sustainability, including the interdependent nature of economic development, social development, and environmental impact. Sustainability has become a watchword in business and community circles and this chapter explores the ways in which companies develop goals, implement programs, and contribute to sustainability concerns. The Dow Jones Sustainability Stoxx Index (DJSSI) makes an annual assessment of companies' economic, environmental, and social performance, based on more than fifty general and industry-specific criteria. One employment services company, The Randstad Group, scored near the top on the social dimension and scored above average on the economic indicators. The DJSSI includes 167 companies from 13 European countries and is used by investors who prefer to make financial investments in companies engaged in socially responsible and sustainable practices.[85]

Global Social Responsibility

Finally, in order for many businesses to remain competitive, they must continually evolve to reach global markets and anticipate emerging world trends. Chapter 12 delves into the complex and intriguing nature of social responsibility in a global economy. Building on key concepts discussed throughout the book, we

EARTH IN THE BALANCE: BUSINESS SUSTAINABILITY

The Marine Stewardship Council

Today, many consumers are using sustainability criteria when making routine purchases, including the seafood they eat in restaurants or cook at home. The Marine Stewardship Council (MSC) has offices around the world and is a key player in transforming the supply chain for seafood so that consumers, restaurant owners, and grocery store purchasing agents can choose seafood harvested in an environmentally responsible manner.

The MSC is an international organization that works with the seafood industry at all stages of the supply chain. The council has developed the world's leading environmental certification for wild-capture fisheries, along with a detailed seafood traceability system. The standards they have set for sustainable fishing and seafood traceability have sought to increase the availability of certified sustainable seafood. The MSC offers fisheries around the world a way to be recognized and rewarded for good management by certifying their products with the MSC blue eco label to make them stand out from the others. The MSC has joined forces with some of the world's leading retailers, restaurants, and seafood businesses to help them meet customer expectations by increasing their sustainable seafood offering.

According to the United Nations Food and Agriculture Organization, overfishing tripled in the last thirty years and half of the world's fish stocks are overfished or depleted of the stock. The MSC's unique "Chain of Custody" certification requires every company along the supply chain to keep the certified seafood separate from other products. This process makes it clear which seafood can be purchased and consumed without fear of depleting stock. More than 1,500 retail packaged products sold in thirty-seven countries bear the MSC logo and the numbers are growing.

The Dakota Forth Bridge was the first Scottish restaurant to receive certification from the MSC. Bamboo Sushi in Portland, Oregon, which opened in late November of 2008, was the first independent restaurant in the United States to become certified for MSC Chain of Custody. These are two examples of the many restaurants who are aiming for better sustainability standards for seafood today. Pret A Manger is an up-market chain of 178 sandwich shops mostly in southern United Kingdom. Nearly all of the shops have their own kitchen to prepare food, but decisions about products are made by a central office to ensure consistent supply and use of MSC-labeled products.

Ultimately, the demand for sustainable seafood derives from consumers who are wary of what they eat and where it comes from. As a rule, consumers should try to avoid young, undersized fish, as catching these can exacerbate pressure on stocks. Healthy fish stocks are a vital part of the marine ecosystem, and provide protein and livelihoods for billions of people. According to *The Good Fish Guide,* fish that are fine to consume include the Alaska or Walleye Pollock, Flounder, Oysters (farmed Native and Pacific), Tilapia (farmed), and Mahi Mahi. The guide recommends staying away from the Cod (except from Iceland), Atlantic Salmon (wild caught), Chilean Sea Bass, Grouper, and Tiger Shrimp (except organic). Overfishing is widely acknowledged as a significant and growing threat to marine biodiversity and sustainability. Consumers, retailers, fisheries, and other partners in the supply chain are key to ensuring the livelihood and availability of seafood for future generations.

Sources: Duncan Clark and Richie Unterberger, *A Rough Guide to Shopping with a Conscience* (New York: Rough Guides Ltd, 2007) pp. 126–129; "The Front Burner," *Washington Restaurant Association Magazine*, August 2008, pp. 6–7; Marine Conservational Society, http://www.fishonline.org, accessed May 10, 2009; The Marine Stewardship Council, http://www.msc.org, accessed May 10, 2009.

examine the forces that make overseas business plans and activities of paramount concern to host countries, local and national governments, nongovernmental organizations, and other members of society. The chapter covers a wide range of challenges and opportunities, such as outsourcing, environmental protection, living wages, indigenous culture, labor standards, and trade restrictions.

The Social Audit

Without reliable measurements of the achievement of social responsibility goals, a company has no concrete way to verify the importance of these objectives, link them to organizational performance, justify expenditures on them to stockholders and investors, or address any stakeholder concerns involving them. The Appendix describes an auditing and assurance procedure that can be used to measure and improve the social responsibility effort. Such an audit is important for demonstrating commitment and ensuring the continuous improvement of the social responsibility effort.

We hope this framework provides you with a way of understanding the range of concepts, ideas, and practices that are involved in an effective social responsibility initiative. So that you can learn more about the practices of specific companies, a number of cases are provided at the end of the book. In addition, every chapter includes an opening vignette and other examples that shed more light on how social responsibility works in today's businesses. Every chapter also includes a real-life scenario entitled "What Would You Do?," a contemporary debate issue, and another exercise to help you apply concepts and examine your own decision-making process. As you will soon see, the concept of social responsibility is both exciting and controversial; it is in a constant state of development—just like all important business concepts and practices.

A recent survey of thought leaders in the area of social responsibility found that a majority believes social responsibility has made steady progress into conventional business thinking. Much like the social responsibility continuum introduced in this chapter, the thought leaders described several stages of commitment to corporate social responsibility. These stages range from light, where companies are concerned about responding to complaints, to deep, where companies are founded on a business model of improving social or environmental circumstances. Many companies fall somewhere in between, with a focus on complying with new standards and surviving in a climate of increasing social responsibility expectations.[86] We encourage you to draw on current news events and your own experiences to understand social responsibility and the challenges and opportunities it poses for your career, profession, role as a consumer, leadership approach, and the business world.

SUMMARY

The term *social responsibility* came into widespread use during the last several decades, but there remains some confusion over the term's exact meaning. This text defines social responsibility as the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders.

All types of businesses can implement social responsibility initiatives to further their relationships with their customers, their employees, and the community at large. Although the efforts of large corporations usually receive the most attention, the actions of small businesses may have a greater impact on local communities.

The definition of social responsibility involves the extent to which a firm embraces the social responsibility philosophy and follows through with the implementation of initiatives. Social responsibility must be fully valued and championed by top managers and given the same planning time, priority, and management attention as is given to any other company initiative.

Many people believe that businesses should accept and abide by four types of responsibility: economic, legal, ethical, and philanthropic. Companies have a responsibility to be economically viable so that they can provide a return on investment for their owners, create jobs for the community, and contribute goods and services to the economy. They are also expected to obey laws and regulations that specify what is responsible business conduct. Business ethics refers to the principles and standards that guide behavior in the world of business. Philanthropic activities promote human welfare or goodwill. These responsibilities can be viewed holistically, with all four related and integrated into a comprehensive approach. Social responsibility can also be expressed as a continuum.

Because customers, employees, investors and shareholders, suppliers, governments, communities, and others have a stake in or claim on some aspect of a company's products, operations, markets, industry, and outcomes, they are known as stakeholders. Adopting a stakeholder orientation is part of the social responsibility philosophy.

The influence of business has led many people to conclude that corporations should benefit their employees, their customers, their business partners, and their community as well as their shareholders. However, these responsibilities and expectations have changed over time. After World War II, many large U.S. firms dominated the global economy. Their power was largely mirrored by the autonomy of their top managers. Because of the relative lack of global competition and stockholder input during the 1950s and 1960s, there were few formal governance procedures to restrain management's actions. The stability experienced by mid-century firms dissolved in the economic turmoil of the 1970s and 1980s, leading companies to focus more on their core competencies and reduce their product diversity. The 1980s and 1990s brought a new focus on efficiency and productivity, which fostered a wave of downsizing and restructuring. Concern for corporate responsibilities was renewed in the 1990s. In the 1990s and beyond, the balance between the global market economy and an interest in social justice and cohesion best characterizes the intent and need for social responsibility. Despite major advances in the 1990s, the sheer number of corporate scandals at the beginning of the twenty-first century prompted a new era of social responsibility.

The increasing globalization of business has made social responsibility an international concern. In most developed countries, social responsibility involves economic, legal, ethical, and philanthropic responsibilities to a variety of stakeholders. Global social responsibility also involves responsibilities to a confluence

of governments, businesses, trade associations, and other groups. Progressive global businesses recognize the "shared bottom line" that results from the partnership among businesses, communities, governments, and other stakeholders.

The importance of social responsibility initiatives in enhancing stakeholder relationships, improving performance, and creating other benefits has been debated from many different perspectives. Many business managers view such programs as costly activities that provide rewards only to society at the expense of the bottom line. Others hold that some costs of social responsibility cannot be recovered through improved performance. Although it is true that some aspects of social responsibility may not accrue directly to the bottom line, we believe that organizations benefit indirectly over the long run from these activities. Moreover, ample research and anecdotal evidence demonstrate that there are many rewards for companies that implement such programs.

The process of social responsibility begins with the social responsibility philosophy, includes the four responsibilities, involves many types of stakeholders, and ultimately results in both short- and long-term performance benefits. Once the social responsibility philosophy is accepted, the four types of responsibility are defined and implemented through programs that incorporate stakeholder input and feedback.

RESPONSIBLE BUSINESS DEBATE

How to Regulate Global Business

ISSUE: Are less formal systems and agreements likely to be more successful than formal legal and regulatory systems?

A key lesson learned from recent business scandals is that responsible, transparent, and ethical leadership is needed in order for companies to develop and maintain a long-term commitment to social responsibility for the benefit of multiple stakeholders. This is especially true of multinational corporations (MNCs) because of the power and influence these businesses and their executives represent. MNCs operate in multiple environments and contexts where laws, rules, expectations, and mores are divergent. In addition, the enforcement and monitoring mechanisms to oversee these expectations range from the barely existent to well-resourced government agencies.

The failure to have a global legal and regulatory scheme has resulted in environmental disasters, child labor, financial fraud, antitrust violations, tainted food products, and other problems. For example, Mattel paid a $12 million settlement to thirty-nine U.S. states for shipping Chinese-made toys containing unsafe amounts of lead. The country's largest toy maker also agreed to new standards for lead content in its toys. To save on manufacturing costs, many U.S. companies make products where wages are lower and regulatory standards often differ.

Despite the new coverage of corporate wrongdoing and questionable decision making, many firms are making the commitment to social responsibility through self-regulation. More than 5,000 companies in 135 countries are

signatories to the United Nation's (UN) Global Compact, signaling their agreement to ten principles on human rights, anticorruption, environmental issues, and labor. The Global Reporting Initiative (GRI) provides a framework for companies developing social responsibility reports that discuss key standards, are comparable to peers, and capture performance over time. The new ISO 26000 standards will assist in voluntary organizational self-analysis, media review, investor due diligence, and other reviews of social responsibility efforts.

There Are Two Sides to Every Issue:

1. Defend the need for a legal and regulatory system that would oversee international and multinational business operations. How would the system be developed? How would the system enact its responsibility for enforcing legal and regulatory standards?
2. Defend the efficacy of assurance systems and agreements, such as the UN Global Compact and ISO 26000 standards. Why are these less formal systems and agreements likely to be more successful than a formal legal and regulatory system?

KEY TERMS

social responsibility (p. 7)

stakeholders (p. 16)

DISCUSSION QUESTIONS

1. Define social responsibility. How does this view of the role of business differ from your previous perceptions? How is it consistent with your attitudes and beliefs about business?
2. If a company is named to one of the "best in social responsibility" lists, what positive effects can it potentially reap? What are the possible costs or negative outcomes that may be associated with being named to one of these lists?
3. What historical trends have affected the social responsibilities of business? How have recent scandals affected the business climate, including any changes in responsibilities and expectations?
4. How would you respond to the statement that this chapter presents only the positive side of the argument that social responsibility results in improved organizational performance?
5. On the basis of the social responsibility model presented in this chapter, describe the philosophy, responsibilities, and stakeholders that make up a company's approach to social responsibility. What are the short- and long-term outcomes of this effort?
6. Consider the role that various business disciplines, including marketing, finance, accounting, and human resources, have in social responsibility. What specific views and philosophies do these different disciplines bring to the implementation of social responsibility?

EXPERIENTIAL EXERCISE

Evaluate *Fortune* magazine's annual list of the most admired companies found on the magazine's website (http://www.fortune.com). These companies as a group have superior financial performance compared to other firms. Go to each company's website and try to assess its management commitment to the welfare of stakeholders. If any of the companies have experienced legal or ethical misconduct, explain how this may affect specific stakeholders. Rank the companies on the basis of the information available and your opinion on their fulfillment of social responsibility.

WHAT WOULD YOU DO?

Jamie Ramos looked out her window at the early morning sky and gazed at the small crowd below. The words and pictures on their posters were pretty tame this time, she thought. The last protest group used pictures of tarred lungs, corpses, and other graphic photos to show the effects of smoking on a person's internal organs. Their words were also hateful, so much so that employees at the Unified Tobacco headquarters were afraid to walk in and out of the main building. Those who normally took smoking breaks on the back patio decided to skip the break and eat something instead at the company-subsidized cafeteria. By midday, Unified hired extra security to escort employees in and out of the building and to ensure that protestors followed the state guideline of staying at least fifteen feet from the company's entrance. The media picked up on the story—and the photos—and it caused quite a stir in the national press.

At least this protest group seemed fairly reasonable. Late yesterday, a state court provided a reduced judgment to the family of a lifelong smoker, now deceased. This meant that Unified was going to owe millions less than originally expected. The length and stress of the lawsuit had taken its toll, especially on top management, although all employees were certainly affected. After two years of being battered in the media, learning of a huge settlement, and then continuing on with the appeals process, emotions were wearing thin with the continued criticism.

Jamie wondered what this day would bring. As the manager of community relations, her job was to represent Unified in the community, manage the employee volunteer program, create a quarterly newsletter, serve as a liaison to the company's philanthropic foundation, develop solid relationships, and serve on various boards related to social welfare and community needs. The company's foundation donated nearly $1.5 million a year to charities and causes. Over one-quarter of its employees volunteered ten hours a month in their communities.

Jamie reported to a vice president and was pleased with the career progress she had made since graduating from college eight years earlier. Although some of her friends wondered out loud how she could work for a tobacco company, Jamie was steadfast in her belief that even a tobacco firm could contribute something meaningful to society. She had the chance to effect some of those contributions in her community relations role.

Jamie's phone rang and she took a call from her vice president. The VP indicated that,

although the protestors seemed relatively calm this time, he was not comfortable with their presence. Several employees had taped signs in office windows telling the protestors to "Go away." Other VPs had dropped by his office to discuss the protest and thought that the responsibility for handling these issues fell to his group. He went on to say that he needed Jamie's help, and the assistance of a few others, in formulating a plan to (1) deal with the protest today and (2) strengthen the strategy for communicating the company's message and goodwill in the future. Their meeting would begin in one hour, so Jamie had some time to sketch out her recommendations on both issues. What would you do?

CHAPTER 2

Strategic Management of Stakeholder Relationships

Chapter Objectives

- To define stakeholders and understand their importance
- To distinguish between primary and secondary stakeholders
- To discuss the global nature of stakeholder relationships
- To consider the impact of reputation and crisis situations on social responsibility performance
- To examine the development of stakeholder relationships
- To explore how stakeholder relationships are integral to social responsibility

Chapter Outline

Stakeholders Defined

Stakeholder Issues and Interaction

Performance with Stakeholders

Development of Stakeholder Relationships

Implementing a Stakeholder Perspective in Social Responsibility

Link Between Stakeholder Relationships and Social Responsibility

OPENING CASE

Stakeholders in the Fight Against Childhood Obesity

America's children are growing not in height or intellectual capacity but in weight. Advertising of fast food, highly processed, corn syrup laced foods is at the heart of the controversy. While TV advertising of food and restaurants has dropped 34 percent from 1977 to 2004, the use of the Internet, promotions, school advertising and vending machines, sponsored sports stadiums, and licensing are on the rise. United States senators recently sponsored the Improved Nutrition and Physical Activity Act to curb obesity and increase nutrition and exercise programs. Regulators, government, parents, and our society in general are concerned with the health of our children.

Studies conducted by the Kaiser Family Foundation have found that the average child sees around 40,000 advertisements per year on television; most of these encourage children to consume candy, cereal, fast food, and soft drinks. The Institute of Medicine released a report in that compiled 123 research studies over the course of thirty years—there is "strong evidence" in the report that advertising is linked with obesity in young children. What seems to be particularly problematic is the use of popular licensed children's cartoon characters (e.g., SpongeBob SquarePants and Scooby Doo) to advertise these unhealthy foods. Critics believe food manufacturers are not being socially responsible by encouraging children to eat food that is detrimental to their health. Some companies are choosing to do something about this problem.

Kraft Foods began limiting its use of cartoon characters in a promise to promote better nutritional standards for children younger than twelve. Coca-Cola, Pepsi, Hershey, and General Mills also agreed to stop advertising products that don't meet nutritional guidelines to kids. Cadbury voluntarily reduced the use of LeBron James as the Bubblicious spokesperson in advertising targeting children. In addition to advertising changes, Kraft introduced a line of 100-percent whole grain crackers and Fig Newtons, toasted chips, and 100-calorie snack packs. McDonald's responded to stakeholders' health concerns by eliminating Super Size menu options, introducing salads and healthier snacks, and attractively repackaging milk. In similar fashion, Burger King began offering a children's meal featuring apple sticks and low-fat caramel dipping sauce. These companies' actions demonstrate sensitivity and concern for consumer health and stakeholder interests.[1]

As this example illustrates, most organizations have a number of constituents, who in turn have other stakeholders to consider. In this case, the food industry and its member companies are facing the complex task of balancing government, parent, children, and corporate concerns. These stakeholders are increasingly expressing opinions that have an effect on the industry's time, operations, member relationships, and products. Today, many organizations are learning to anticipate such issues and to address them in their plans and actions long before they become the subject of media stories or negative attention.

In this chapter, we examine the concept of stakeholders and explore why these groups are important for today's businesses. First, we define stakeholders and examine primary, secondary, and global stakeholders. Then, we examine the concept of a stakeholder orientation to enhance social responsibility. Next, we consider the impact of corporate reputation and crisis situations on stakeholder relationships. Finally, we examine the development of stakeholder relationships implementing a stakeholder perspective and the link between stakeholder relationships and social responsibility.

STAKEHOLDERS DEFINED

In Chapter 1, we defined stakeholders as those people and groups to whom an organization is responsible—including customers, investors and shareholders, employees, suppliers, governments, communities, and many others—because they have a "stake" or claim in some aspect of a company's products, operations, markets, industry, or outcomes. Not only are these groups influenced by businesses, but they also have the ability to affect businesses.

Responsibility issues, conflicts, and successes revolve around stakeholder relationships. Building effective relationships is considered one of the more important practices of business today. The stakeholder framework is recognized as a management theory that attempts to balance stakeholder interests. Issues related to indivisible resources and unequal levels of stakeholder salience constrain managers' efforts to balance stakeholder interests.[2] A business exists because of relationships among employees, customers, shareholders or investors, suppliers, and managers that develop strategies to attain success. In addition, an organization usually has a governing authority, often called a *board of directors*, that provides oversight

© AP Photo/Paul Sakuma

Apple Inc. takes care to interact with its primary stakeholders, especially customers

and direction to make sure the organization stays focused on objectives in an ethical, legal, and socially responsible manner. When misconduct is discovered in organizations, it is often found that there has been knowing cooperation or compliance that has facilitated the acceptance and perpetuation of the unethical conduct.[3] Therefore, relationships are associated not only with organizational success but also with organizational failure to assume responsibility.

"Building effective relationships is considered one of the more important practices of business today."

The historical assumption that the foremost objective of business is profit maximization led to the belief that business is accountable primarily to investors and others involved in the market and economic aspects of an organization. Because shareholders and other investors provide the financial foundation for business and expect something in return, managers and executives naturally strive to maintain positive relationships with them.[4]

In the latter half of the twentieth century, perceptions of business accountability evolved toward an expanded model of the role and responsibilities of business in society. The expansion included questions about the normative role of business: "What is the appropriate role for business to play in society?" and "Should profit be the sole objective of business?"[5] Many businesspeople and scholars have questioned the role of social responsibility in business. Legal and economic responsibilities are generally accepted as the most important determinants of performance: "If this is well done," say classical theorists, "profits are maximized more or less continuously and firms carry out their major responsibilities to society."[6] Some economists believe that if companies address economic and legal issues, they are satisfying the demands of society, and that trying to anticipate and meet additional needs would be almost impossible. Milton Friedman has been quoted as saying that "the basic mission of business [is] thus to produce goods and services at a profit, and in doing this, business [is] making its maximum contribution to society and, in fact, being socially responsible."[7] Even with the business ethics scandals of the twenty-first century, Friedman suggests that, although individuals guilty of wrongdoing should be held accountable, the market is a better deterrent than new laws and regulations that discourage firms from wrongdoing.[8] Thus, Friedman would diminish the role of stakeholders such as the government and employees in requiring that businesses demonstrate responsible and ethical behavior.

This Darwinian form of capitalism has unfortunately been exported to many less developed and developing countries and is associated with a Wild West economy where anything goes in business. Friedman's capitalism is a far cry from Adam Smith's, one of the founders of capitalism. Smith created the concept of the invisible hand and spoke about self-interest; however, he went on to explain that this common good is associated with psychological motives and that each individual has to produce for the common good, "with values

such as Propriety, Prudence, Reason, Sentiment and promoting the happiness of mankind."[9] These values could be associated with the needs and concerns of stakeholders.

In the twenty-first century, is Friedman's form of capitalism being replaced by Smith's original concept of capitalism (or what is now called enlightened capitalism), a notion of capitalism that reemphasizes stakeholder concerns and issues? This shift may be occurring faster in developed countries than in those still being developed. Theodore Levitt, a renowned business professor, once wrote that, although profits are required for business just like eating is required for living, profit is not the purpose of business any more than eating is the purpose of life.[10] Norman Bowie, a well-known philosopher, extended Levitt's sentiment by noting that focusing on profit alone can create an unfavorable paradox that causes a firm to fail to achieve its objectives. Bowie contends that when a business also cares about the well-being of stakeholders, it earns trust and cooperation that ultimately reduce costs and increase productivity.[11]

These perspectives take into account both market and nonmarket constituencies that may interact with a business and have some effect on the firm's policies and strategy.[12] Market constituencies are those who are directly involved with and affected by the business purpose, including investors, employees, customers, and other business partners. Nonmarket groups include the general community, media, government, special-interest groups, and others who are not always directly tied to issues of profitability and performance.

"Much evidence exists that social responsibility is associated with increased profits."

Much evidence exists that social responsibility is associated with increased profits. For example, one survey indicates that three of four consumers refused to buy from certain businesses, and a business's poor conduct was an important reason to avoid a business.[13] An important academic study found that there is a direct relationship between social responsibility and profitability. The study also found that social responsibility contributes to employee commitment and customer loyalty—vital concerns of any firm trying to increase profits.[14]

STAKEHOLDER ISSUES AND INTERACTION

Stakeholders provide resources that are more or less critical to a firm's long-term success. These resources may be both tangible and intangible. Shareholders, for example, supply capital; suppliers offer material resources or intangible knowledge; employees and managers grant expertise, leadership, and commitment; customers generate revenue and provide loyalty and positive word-of-mouth promotion; local communities provide infrastructure;

and the media transmits positive corporate images. When individual stakeholders share similar expectations about desirable business conduct, they may choose to establish or join formal communities that are dedicated to better defining and advocating these values and expectations. Stakeholders' ability to withdraw—or to threaten to withdraw—these needed resources gives them power over businesses.[15]

"We can assess the level of social responsibility an organization bears by scrutinizing its effects on the issues of concern to its stakeholders."

New reforms to improve corporate accountability and transparency also suggest that other stakeholders—including banks, law firms, and public accounting firms—can play a major role in fostering responsible decision making.[16] Stakeholders apply their values and standards to many diverse issues, such as working conditions, consumer rights, environmental conservation, product safety, and proper information disclosure, issues that may or may not directly affect an individual stakeholder's own welfare. We can assess the level of social responsibility an organization bears by scrutinizing its effects on the issues of concern to its stakeholders. Table 2.1 provides examples of common stakeholder issues along with indicators of businesses' impacts on these issues.[17]

Identifying Stakeholders

We can identify two different types of stakeholders. **Primary stakeholders** are those whose continued association is absolutely necessary for a firm's survival; these include employees, customers, investors, and shareholders, as well as the governments and communities that provide necessary infrastructure. For example, many large companies diluted pensions of salaried employees and cut medical benefits to retired employees who were primary stakeholders. Figure 2.1 shows the national trend of firms with over 200 employees to offer fewer health benefits for retirees, dropping from a high of around 66 percent in 1988 to around 31 percent twenty years later.

Secondary stakeholders do not typically engage in transactions with a company and thus are not essential for its survival; these include the media, trade associations, and special-interest groups. The American Association of Retired People (AARP), a special-interest group, works to support the rights of retirees in areas such as health-care benefits. Both primary and secondary stakeholders embrace specific values and standards that dictate what constitutes acceptable or unacceptable corporate behaviors. It is important for managers to recognize that primary groups may present more day-to-day concerns, but secondary groups cannot be ignored or given less consideration in the ethical decision-making process.

primary stakeholders those whose continued association is absolutely necessary for a firm's survival; these include employees, customers, investors, and shareholders, as well as the governments and communities that provide necessary infrastructure

secondary stakeholders those who do not typically engage in transactions with a company and thus are not essential for its survival; these include the media, trade associations, and special-interest groups

Table 2.1 Examples of Stakeholder Issues and Associated Measures of Corporate Impacts

Stakeholder Groups and Issues	Potential Indicators of Corporate Impact on These Issues
Employees	
1. Compensation and benefits	1. Ratio of lowest wage to chief executive officer wage
2. Training and development	2. Changes in average training dollars spent per year per employee
3. Employee diversity	3. Percentages of employees from different genders and races, especially in leadership roles
4. Occupational health and safety	4. Standard injury rates and absentee rates
5. Communications with management	5. Availability of open-door policies or ombudsmen management
Customers	
1. Product safety and quality	1. Number of product recalls over time
2. Management of customers	2. Number of customer complaints and availability of complaint procedures to answer them
3. Services to customers with disabilities	3. Availability and nature of measures taken to ensure services to customers with disabilities
Investors	
1. Transparency of shareholder	1. Availability of procedures to inform shareholders about corporate activities
2. Shareholder rights	2. Frequency and type of litigation involving violations of shareholder rights
Suppliers	
1. Encouraging suppliers in developing countries	1. Prices offered to suppliers in developing and developed countries in comparison to other suppliers
2. Encouraging minority suppliers	2. Percentage of minority suppliers
Community	
1. Public health and safety	1. Availability of emergency response plan protection
2. Conservation of energy and materials	2. Data on reduction of waste produced and materials compared to industry
3. Donations and support of local organizations	3. Annual employee time spent in community service organizations
Environmental Groups	
1. Minimizing the use of energy	1. Amount of electricity purchased; percentage of "green" electricity
2. Minimizing emissions and waste	2. Type, amount, and designation of waste generated
3. Minimizing adverse environmental effect of products	3. Percentage of reclaimed product weight reused, recycled, or remanufactured

Text not available due to copyright restrictions

Figure 2.2 offers a conceptualization of the relationship between businesses and stakeholders. In this **stakeholder interaction model**, there are two-way relationships between the firm and a host of stakeholders. In addition to the fundamental input of investors, employees, and suppliers, this approach recognizes other stakeholders and explicitly acknowledges the dialog that exists between a firm's internal and external environments.

A Stakeholder Orientation

The degree to which a firm understands and addresses stakeholder demands can be referred to as a **stakeholder orientation**. This orientation comprises three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.[18]

Generating data about stakeholders begins with identifying the stakeholders that are relevant to the firm. Relevant stakeholder communities should be analyzed on the basis of the power each enjoys as well as by the ties between them. Next, the firm should characterize the concerns about the business's conduct that each relevant stakeholder group shares. This information can be derived from formal research, including surveys, focus groups, Internet searches, or press reviews. For example, Ford Motor Company obtains input on social and environmental responsibility issues from company representatives, suppliers, customers, and community leaders. Shell has an online discussion forum where website visitors

stakeholder interaction model
a conceptualization of the relationship between businesses and stakeholders in which there are two-way relationships between the firm and a host of stakeholders

stakeholder orientation
the degree to which a firm understands and addresses stakeholder demands

Fate of Dealers in the Automotive Industry As Chrysler headed into bankruptcy and General Motors (GM) tried to fend off economic failure, media outlets carried stories about significant ramifications to the companies' employees and suppliers, especially the impact on certain manufacturing communities. One primary stakeholder was left out of early discussions—the dealers that ensure people in large cities and small towns alike have access to Chrysler and GM products. When both car firms announced the decision to drop certain dealers from their retail networks, economic reverberations were felt on a variety of stakeholders, in a number of communities, across the United States (U.S.). Although Chrysler and GM are typically categorized as part of the automotive industry, they are pivotal to financial markets, consumer confidence, and the economic prospects of the nation.

State franchise laws make it arduous and expensive for automotive manufacturers to force dealers out of business, but franchise contracts can be annulled in bankruptcy court. That was exactly the strategy utilized by Chrysler, as it told 789 of its 3,200 dealers that their contracts would be voided under corporate bankruptcy protection. Although GM was not officially bankrupt at the time, the company informed 1,100 dealerships that it would discontinue sales to them by October 2010. Among them were 450 dealerships for Saturns, Saabs, and Hummers, all brands that GM planned to sell or eliminate.

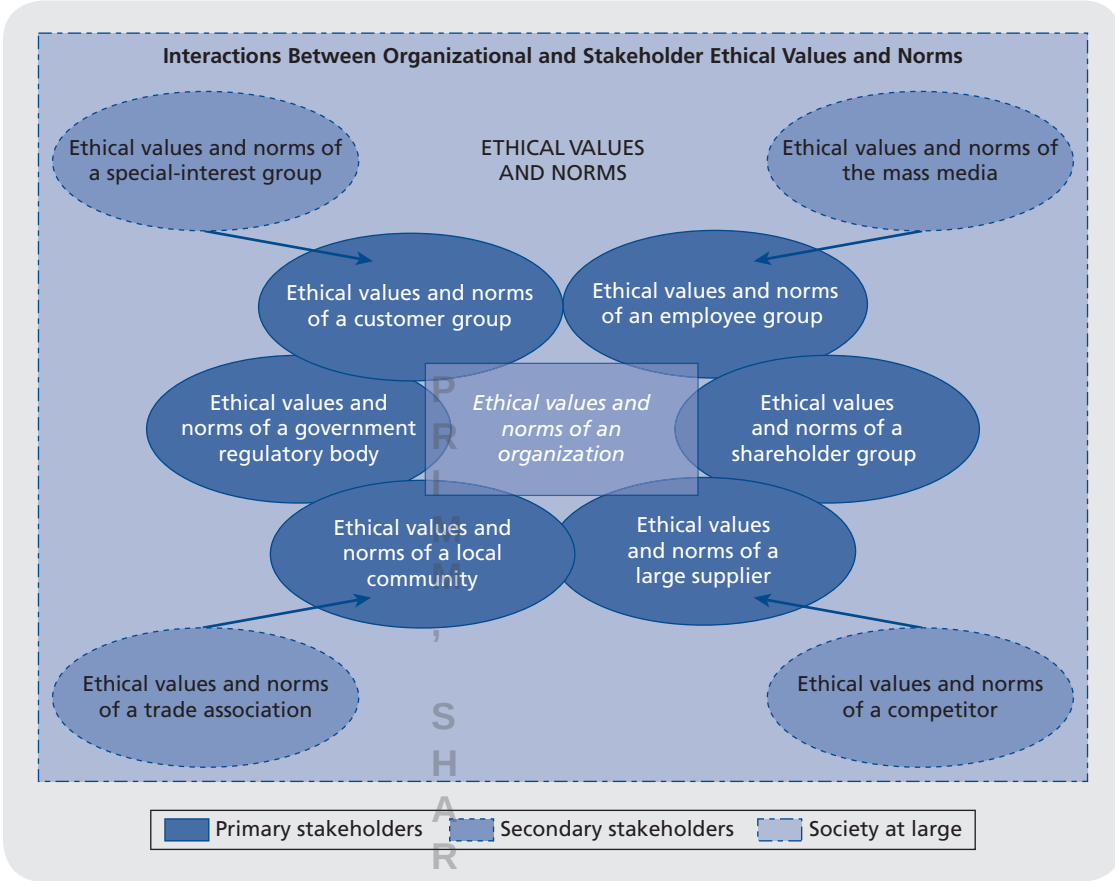
President Obama established the Auto Task Force to review plans by GM and Chrysler to restructure, modernize, and become more competitive. On March 30, 2009, the task force issued its findings, including the need for the automotive manufacturers to reduce dealer operations. The National Automobile Dealers Association (NADA) said the affected GM dealerships employed about 63,000 salespeople, mechanics, and other personnel. The Chrysler closings affected 40,000 employees at Jeep, Dodge, and Chrysler dealerships. Ultimately, the NADA estimated that over 150,000 dealer employees would be affected. In a position paper on dealer closures, the association laid out five major concerns and financial effects on laid-off employees, dealer owners, local communities and governments, and other stakeholders by contagion:

1. The Auto Task Force is unnecessarily putting nearly 150,000 employees out of work.
2. Forced dealer closings will hurt communities.
3. Fewer dealers will mean state and local governments will lose millions of dollars in auto sales tax revenue.
4. Fewer dealers will mean reduced competition and convenience for consumers.
5. Cutting dealers at this time will do nothing to make GM or Chrysler more viable.

Sources: National Automobile Dealers Association, "NADA Opposes Unnecessary, Forced Dealership Closures," www.nada.org, accessed May 17, 2009; "Remarks by the President on the American Automotive Industry," http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-the-American-Automotive-Industry-3/30/09/, accessed May 17, 2009; Sharon Terlop, "GM to Close 1100 Dealerships," wsj.com, May 16, 2009.

are invited to express their opinions on the company's activities and their implications. This information can also be generated informally by employees and managers as they carry out their daily activities. For example, purchasing managers know about suppliers' demands, public relations executives about the media,

Figure 2.2 Stakeholder Model for Implementing Social Responsibilities



Source: Adapted from Isabelle Maignan, O. C. Ferrell, Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility in Marketing," *European Journal of Marketing* 39 (September/October 2005): 956–977. Used with permission.

legal counselors about the regulatory environment, financial executives about investors, sales representatives about customers, and human resources advisors about employees. Finally, the company should evaluate its impact on the issues that are important to the various stakeholders it has identified.[19] To develop effective stakeholder dialogs, management needs to appreciate how others perceive the risks of a specific decision. A multiple stakeholder perspective must take into account communication content and transparency when communicating with specific stakeholders.[20]

Given the variety of the employees involved in the generation of information about stakeholders, it is essential that this intelligence be circulated throughout the firm. This requires that the firm facilitate the communication of information about the nature of relevant stakeholder communities, stakeholder issues, and the current impact of the firm on these issues to all members of the organization. The dissemination of stakeholder intelligence can be organized formally through activities such as newsletters and internal information forums.[21]

A stakeholder orientation is not complete unless it includes activities that actually address stakeholder issues. For example, The Gap reported that although it is improving factory inspections, it is still struggling to wipe out deep-seated problems such as discrimination and excessive overtime. Gap revoked approval of seventy factories that violated its code of vendor conduct. Gap also realized that it sometimes contributes to problems by making unreasonable demands on factories; therefore, it is becoming stricter about its own deadlines to ensure that dumping rush jobs on factories does not occur.[22] The responsiveness of the organization as a whole to stakeholder intelligence consists of the initiatives the firm adopts to ensure that it abides by or exceeds stakeholder expectations and has a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (e.g., family-friendly work schedules) or to a particular stakeholder issue (e.g., pollution-reduction programs). These responsiveness processes typically involve the participation of the concerned stakeholder groups. Kraft, for example, includes special-interest groups and university representatives in its programs to become sensitized to present and future ethical issues.

A stakeholder orientation can be viewed as a continuum in that firms are likely to adopt the concept to varying degrees. To gauge a given firm's stakeholder orientation, it is necessary to evaluate the extent to which the firm adopts behaviors that typify both the generation and dissemination of stakeholder intelligence and responsiveness to it. A given organization may generate and disseminate more intelligence about certain stakeholder communities than about others and, as a result, may respond to that intelligence differently.[23]

Stakeholder Attributes[24]

Traditionally, companies have had an easier time understanding the issues stakeholders raise than their attributes and the tactics they use to affect organizational decision making. It is therefore necessary to understand both the content (specific issues) and process (actions, tactics) of each stakeholder relationship. For example, animal rights activists sometimes use an unreasonable process to communicate the content of their beliefs. Although they are controversial, animal rights issues do have solid support from a number of citizens. One mechanism for understanding stakeholders and their potential salience to a firm involves assessing three stakeholder attributes: power, legitimacy, and urgency. This assessment provides one analytical tool to help managers uncover the motivations and needs of stakeholders and how they relate to the company and its interests. In addition, stakeholder actions may also sensitize the firm to issues and viewpoints not previously considered.[25]

"Power, legitimacy, and urgency are not constant, meaning stakeholder attributes can change over time and context."

Power, legitimacy, and urgency are not constant, meaning stakeholder attributes can change over time and context. For example,

there was a very strong "Buy American" sentiment in the United States in the 1980s, a time when Japanese manufacturers were making steady market share gains. Today, there is less consumer activism or retailer strategy on activism toward this nationalistic buying criterion. Thus, although these stakeholders may still have a legitimate claim for buying from U.S. firms, they are neither using their power nor creating a sense of urgency regarding this issue today. It seems that nationalism, as it relates to retail purchasing, is no longer a key buying criterion. The U.S. economy has been strong, so products from other countries have not been seen as threatening. In polls after September 11, 30 percent of Americans said they preferred to buy American-made goods, but over 40 percent said they pay little attention to a good's origin.[26]

Power A stakeholder has power to the extent that it can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to an organization.[27] *Coercive power* involves the use of physical force, violence, or some type of restraint. *Utilitarian power* involves financial or material control, such as boycotts that affect a company's bottom line. Finally, *symbolic power* relies on the use of symbols that connote social acceptance, prestige, or some other attribute. Symbolism contained in letter-writing campaigns, advertising messages, and websites can be used to generate awareness and enthusiasm for more responsible business actions. In fact, the Internet has conferred tremendous power on stakeholder groups in recent years. A number of "hate sites" have been placed on the Internet by disgruntled stakeholders, especially customers and former employees, to share concerns about certain corporate behaviors. Richard B. Freeman, a Harvard labor economist, says, "With the Internet, information flows instantly, so even if we don't have more people concerned about companies, those who are can do more about it."[28] Symbolic power is the least threatening of the three types.

Utilitarian measures, including boycotts and lawsuits, are also fairly prevalent, although they often come about after symbolic strategies fail to yield the desired response. For example, the U.S. government, an important stakeholder for most firms, recently banned the importation of goods made by children under the age of fifteen through indentured or forced labor.[29] This action came about after the media and activist groups exposed widespread abuses in the apparel industry. This law carries financial—utilitarian—repercussions for firms that purchase products manufactured under unacceptable labor conditions.

Finally, some stakeholders use coercive power to communicate their message. During a rally to protest McDonald's as a symbol of global capitalism, worker exploitation, and environmental insensitivity, a handful of protesters stormed a McDonald's restaurant in London, eventually tearing down the hamburger chain's famous "golden arches." A company spokesperson said that although the company abhors violence and destruction, it planned to reopen the damaged restaurant and start a dialog with activists to counter false allegations and accusations. The spokesperson emphasized the local, not global, nature of McDonald's in the United Kingdom, where the company employs 70,000 people and has over 1,200 restaurants.[30]

Legitimacy The second stakeholder attribute is legitimacy, which is the perception or belief that a stakeholder's actions are proper, desirable, or appropriate

power
the extent to which a stakeholder can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to the organization; power may be coercive, utilitarian, or symbolic

legitimacy
the perception or belief that a stakeholder's actions are proper, desirable, or appropriate within a given context

within a given context.[31] This definition suggests that stakeholder actions are considered legitimate when claims are judged to be reasonable by other stakeholders and by society in general. Legitimacy is gained through the stakeholder's ability and willingness to explore the issue from a variety of perspectives and then to communicate in an effective and respectful manner on the desire for change. Thus, extremist views are less likely to be considered legitimate because these groups often use covert and inflammatory measures that overshadow the issues and create animosity. For example, extreme groups have destroyed property, threatened customers, and committed other acts of violence that ultimately discredit their legitimacy.[32] McDonald's remained open to stakeholder dialog after the London restaurant was destroyed, although other companies might have shunned further communication with the protesters, citing their irrational and dangerous behavior. McDonald's also faced criticism for its unhealthy food, which was linked to obesity; in the UK, the health lobby claimed McDonald's food was bad for consumers. McDonald's took the claims to heart and decided to change their image. They intensified efforts to include healthy options on their menus. One issue arose concerning their Chicken Caesar salad, which had more fat and calories than McDonald's world-famous hamburger. However, management listened to consumers and, within three months, introduced a new low-fat dressing option. McDonald's has recovered well from its negative publicity and, by listening to its customers, has been able to change not only its image, through makeovers of its restaurants and sponsorship deals with Justin Timberlake and Destiny's Child, but also its focus. In the UK, McDonald's launched an "It's What I Eat and What I Do" initiative to increase activity among young children and try to counteract the obesity epidemic.[33] Although an issue, such as environmental sensitivity, may be legitimate, it is difficult for the claim to be evaluated independently of the way the stakeholder group communicates on it.

Urgency Stakeholders exercise greater pressures on managers and organizations when they stress the urgency of their claims. Urgency is based on two characteristics: time sensitivity and the importance of the claim to the stakeholder. Time sensitivity usually heightens the stakeholder's effort and may compress an organization's ability to research and react to a claim. For example, protesters in Thailand formed a human chain around a hotel hosting the Asian Development Bank's annual meeting. The protest was aimed at increasing the bank's efforts to revitalize the regional economy and create more economic equity for the working poor. The protest was timed to occur during the bank's annual meeting, when officials would be developing new policies. Although bank officials did not formally meet with the protesters, the Asian Development Bank committed monies and projects to reduce poverty and other socioeconomic ills.[34]

In another example, labor and human rights are widely recognized as critical issues because they are fundamental to the well-being of people around the world. These rights have become a focal point for college student associations that criticized Nike, the world's leading shoe company, for its failure to improve the working conditions of employees of suppliers and in not making information available to interested stakeholders. Nike experienced a public backlash from its use of offshore subcontractors to manufacture its shoes and clothing. When Nike claimed no responsibility for the subcontractors' poor working conditions

urgency
the time sensitivity and the importance of the claim to the stakeholder

and extremely low wages, some consumers demanded greater accountability and responsibility by engaging in boycotts, letter-writing campaigns, public-service announcements, and so forth. Nike ultimately responded to the growing negative publicity by changing its practices and becoming a model company in managing offshore manufacturing.

Overall, stakeholders are considered more important to an organization when their issues are legitimate, their claims are urgent, and they can make use of their power on the organization. These attributes assist the firm and employees in determining the relative importance of specific stakeholders and making resource allocations for developing and managing the stakeholder relationship.

PERFORMANCE WITH STAKEHOLDERS

Managing stakeholder relationships effectively requires careful attention to a firm's reputation and the effective handling of crisis situations. Motorola, a large telecommunications company, was not aware that one of its European distributors sold Motorola semiconductor chips to a manufacturer of landmine component parts. When Motorola, the recipient of numerous social responsibility accolades, learned of the situation, it investigated, stopped selling to the distributor, and created better oversight for its distribution channels. In the process, Motorola was mindful of potential effects on its reputation with stakeholders. In a similar turn, De Beers, the world's largest diamond producer, announced it would stop buying diamonds from Angola, after a group of European organizations launched a campaign to alert the public to the fact that an Angolan rebel group, Unita, funded wars and casualties through diamond sales.[35]

Reputation Management

There are short- and long-term outcomes associated with positive stakeholder relationships. One of the most significant of these is a positive reputation. Because a company's reputation has the power to attract or repel stakeholders, it can be either an asset or a liability in developing and implementing strategic plans and social responsibility initiatives.[36] Reputations take a long time to build or change, and it is far more important to monitor reputation than many companies believe. Whereas a strong reputation may take years to build, it can be destroyed seemingly overnight if a company does not handle crisis situations to the satisfaction of the various stakeholders involved.

Corporate reputation, image, and brands are more important than ever and are among the most critical aspects of sustaining

"Reputations take a long time to build or change, and it is far more important to monitor reputation than many companies believe."

Photo courtesy of Vicki Beaver

Socially responsible companies communicate with stakeholders in a variety of ways, like Timberland's use of its corporate website

relationships with constituents, including investors, customers, financial analysts, media, and government watchdogs. It takes companies decades to build a great reputation, yet just one slip can cost a company dearly. Although an organization does not control its reputation in a direct sense, its actions, choices, behaviors, and consequences do influence the reputation that exists in perceptions of stakeholders. Companies such as Exxon Mobil, Citgo, Halliburton, Chrysler, AIG, and General Motors received low ratings from the public in a corporate reputation survey for what the public perceived as the "heartless" spike in prices at the pump, irresponsible management, bankruptcy, and record executive salaries and bonuses. In the same survey, despite corporate-governance reforms and a growing commitment to ethics and social responsibility, the overall reputation of American corporations continued to slip. In 2009, 88 percent of respondents rated American businesses' reputation as "not good" or "terrible" compared to 68 percent in 2004.[37]

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. A company's reputation is affected by every contact with a stakeholder.[38] Various trends may affect how companies manage their reputations. These trends include market factors, such as increased consumer knowledge and community access to information, and workplace factors, including technological advances, closer vendor relationships, and more inquisitive employees. These factors make companies more cautious about their actions because increased scrutiny in this area requires more attention from management. A company needs to understand these factors and how to properly address them to achieve a strong reputation. These factors have also helped companies recognize a link between reputation and competitive advantage. If these trends are dealt with wisely and if internal and external communication

reputation management the process of building and sustaining a company's good name and generating positive feedback from stakeholders

strategies are used effectively, a firm can position itself positively in stakeholders' minds and thus create a competitive advantage. Intangible factors related to reputation can account for as much as 50 percent of a firm's market valuation.[39]

The importance of corporate reputation has created a need for accurate reputation measures. As indicated in Table 2.2, business publications, research firms,

Table 2.2 Reputation Measures

Reputation List	Conducted By	Groups Surveyed	Primary Purpose
100 Best Companies to Work for in America	Robert Lebering & Milton Moskowitz and Hewitt Associates	*Fortune* companies' employees and top managers	Publication
100 Best Corporate Citizens	*Business Ethics* magazine, KLD Research & Analytics, Sandra Waddock and Samuel Graves, and Boston College	Drawn from 650 firms used in the socially screened Domini Index: the S&P 500, plus 150 other firms selected for industry balance and social excellence	Publication
America's Most Admired Companies	*Fortune* magazine and Clark, Martire & Bartolomeo	Company officers, directors, and analysts of *Fortune* 500 companies	Publication
Best and Worst: Social Responsibility	*Fortune* magazine and Clark, Martire & Bartolomeo	Company officers, directors, and analysts of *Fortune* 500 companies	Publication
Corporate Branding Index	Corporate Branding LLC	Vice president–level executives and above in the top 20 percent of U.S. businesses	Customized for clients
Corporate Reputation Index	Delahaye Medialink	Print and broadcast media	Sold as syndicated research
Global Reputation Pulse	Reputation Institute	Consumers familiar with each company	Publication
Maximizing Corporate Reputation	Burston-Marsteller	CEOs, executives, board members, financial community, government officials, business media, and consumers	Customized for clients
Reputation Quotient	Reputation Institute and Harris Interactive	General public	Customized for clients
World's Most-Respected Companies	Pricewaterhouse Coopers	CEOs from 75 countries	Publication

Sources: Prema Nakra, "Corporate Reputation Management: 'CRM' with a Strategic Twist," *Public Relations Quarterly* 45 (Summer 2000): 35; Reputation Institute, "2009 Global Reputation Pulse," http://www.reputationinstitute.com/advisory-services/global-pulse, accessed May 3, 2009; Steven L. Wartick, "Measuring Corporate Reputation: Definition and Data," *Business & Society* 41 (2002): 371–392.

consultants, and public relations agencies have established a foothold in the new field of reputation management through research and lists of "the most reputable" firms. However, some questions have arisen as to who can best determine corporate reputation. For example, some measures survey only chief executives, whereas others also elicit perceptions from the general public. Although executives may be biased toward a firm's financial performance, the general public may lack experience or data on which to evaluate a company's reputation. Regardless of how it is measured, reputation is the result of a process involving an organization and various constituents.[40]

The process of reputation management involves four components that work together: organizational identity, image, performance, and ultimately, reputation.[41] Organizational identity refers to how an organization wants to be viewed by its stakeholders, whereas organizational image is how stakeholders interpret the various aspects of a company to form an overall impression of it. Organizational performance involves the actual interaction between the company and its stakeholders. The interaction of organizational image and performance results in organizational reputation, the collective view of all stakeholders after their image of the firm is shaped through interactions with the company.

To build and manage a good reputation, these four areas must be aligned. Companies must manage identity and culture by pinpointing those standards and responsibilities that will allow them to achieve their objectives, work with stakeholders effectively, and continuously monitor and change for effectiveness.[42] The top corporate citizens selected for the *Business Ethics* 100 Best Corporate Citizens list provide recognition and publicity for outstanding performance using corporate responsibility criteria. Green Mountain Coffee ranked number two in

Table 2.3 Top 20 Corporate Citizens

1. Green Mountain Coffee Roasters, Inc.	11. Salesforce.com, Inc.
2. Advanced Micro Devices, Inc.	12. Applied Materials, Inc.
3. NIKE, Inc.	13. Texas Instruments Incorporated
4. Motorola, Inc.	14. Herman Miller, Inc.
5. Intel Corporation	15. Rockwell Collins
6. International Business Machines Corporation	16. Interface, Inc.
7. Agilent Technologies, Inc.	17. Steelcase, Inc.
8. Timberland Company (The)	18. Dell Inc.
9. Starbucks Corporation	19. Cisco Systems, Inc.
10. General Mills Incorporated	20. Lam Research Corporation

Source: "Business Ethics 100 Best Corporate Citizens 2007," *Business Ethics*, http://www.business-ethics.com/node/75, accessed May 3, 2009.

2005 and number one in 2007 as shown in Table 2.3. Green Mountain Coffee roasts high-quality Arabica coffees and offers over 100 coffee selections, including single-origins, estates, certified organics, Fair Trade Certified™, proprietary blends, and flavored coffees. They carefully select their coffee beans and then *appropriately roast* the coffees to maximize their taste and flavor differences. Green Mountain Coffee Roasters has consistently appeared on *Forbes Magazine* 200 Best Small Companies in America. It has been on the list for six years, and in 2004, it ranked sixty-eight compared to its 2003 position of seventy. In 2005, it ranked 126. It also placed number one on *Business Ethics* magazine's 100 Best Corporate Citizens in 2006, up from its 2005 position of second. There is openness in all aspects of communication that allows employees to have regular access to all levels of the organization, including CEO Bob Stiller. This encourages passion and commitment so that employees get to the crux of issues rather than play politics. The company uses technology such as voicemail or e-mail to inform the group of decisions and allows individual employees to voice their opinions and ideas. In this way, they have achieved a culture of involving people in ideas and issues to come up with better solutions together rather than allowing just one individual to come up with solutions that might not necessarily be the best. The empowerment of employees means that the company may seem chaotic at times. However, the communication across channels, in what is sometimes termed a "constellation of communication," ensures that the collaborative nature of getting things done spreads the word across the company and anyone can express their ideas and opinions. Although employees are encouraged to share their views in many meetings, the information is shared by following an agenda, which ensures that efficient decision making occurs seamlessly across the company.[43]

Thus, all these elements must be continually implemented to ensure that the company's reputation is maximized through community relations. However, most firms will, at one time or another, experience crisis situations that threaten or harm this reputation. How a company reacts, responds, and learns from the situation is indicative of its commitment and implementation of social responsibility.

Reputation management is becoming a key consideration for corporations around the world. A recent study delved into the reasons that German firms invest resources into building, maintaining, and strengthening their reputations. Roughly two-thirds of the respondents felt that reputation management was of "very high" or "high" importance to their companies. Firms operating in the food and services industries attached the most importance to reputation, whereas those in the automotive, retail, and manufacturing sectors indicated the least importance.

Table 2.4 lists a number of reputation objectives, with the percentage of respondents who believed the objective was of high importance to the organization. Developing a positive image and improving relationships with employees and customers were key considerations for the majority of companies. Other stakeholders, such as investors, suppliers, and the media, were seen as less relevant to reputation objectives and strategies. Only 15 percent of the respondents indicated that reputation management was helpful with improving supplier relations; just over 20 percent believed the same for improving investor relations.

Table 2.4 Reputation Objectives of German Companies

Reputation Objectives	Percent Indicating Very Important
Development of a positive image	76.3
Heightening of customer satisfaction and loyalty	72.5
Improvement of customer relationships	66.4
Increase of corporate identity	60.3
Acquiring new customers	57.3
Heightening of employee motivation	56.5
Heightening of employee satisfaction	53.4
Increase in profits	48.4
Simplification of launching products on the market	37.2
Positive support by media	35.1
Improvement of corporate public image	31.3
Improvement of investor relations	25.8
Lowering the cost of capital	23.8
Improvement of investor relations	21.0
Improvement of supplier relations	15.3
Easier high-potential recruiting	13.7

Source: K. P. Wiedmann and H. Buxel, "Corporate Reputation Management in Germany: Results of an Empirical Study," *Corporate Reputation Review* 8, no. 2 (2005): 145–163.

"Organizational crises are far-reaching events that can have dramatic effects on both the organization and its stakeholders."

Nearly 50 percent of the companies, however, believed that reputation objectives were very important to increasing profits.

Crisis Management[44]

Organizational crises are far-reaching events that can have dramatic effects on both the organization and its stakeholders. Along with the industrialization of society, companies and their products have become ever more complex and therefore more susceptible to crisis. As a result, disasters and crisis situations are increasingly common events from which few organizations are exempt. For example, the size and geographic diversity of IBM's workforce and operations

required the firm to develop a worldwide network of crisis management personnel. This group is trained to implement the company's crisis management team model in the event of natural disaster, product recall, major lawsuit, violence, or other misfortune. IBM put its plan into motion on September 11, 2001, and was able to restore core services within three days, lend its extra office space to house displaced customers and noncustomers, assist employees and communities affected by the tragedy, and use its technology and call centers to aid government agencies.[45]

An *ethical misconduct disaster* (EMD) can be an unexpected organizational crisis that results from employee misconduct, illegal activities such as fraud, or unethical decisions that significantly disrupt operations and threaten or are perceived to threaten the firm's continuity of operations. An EMD can even be more devastating than natural disasters such as a hurricane or technology disruptions.[46]

As organizations plan for natural disasters and insure against traditional risks, so too should they prepare for ethical crises. An EMD can be managed by organizational initiatives to recognize, avoid, discover, answer, and recover from the misconduct. The potential damage of an ethical disaster can affect both business and society. The costs of an EMD from both a financial and reputation perspective can be assessed, as well as the need for planning to avoid an EMD. The role of leadership in preventing a crisis relates to a contingency plan to develop effective crisis management programs.

The risks facing organizations today are significant, and the reputational damage caused can be far greater for companies that find themselves unprepared. The key is to recognize that the risks associated with misconduct are real and that, if insufficient controls are in place, the company can suddenly find itself the subject of an EMD. Although it is hard to predict an ethical disaster, companies can and must prepare for one.

According to HealthSouth, they have spent "approximately $440 million in, among other things, stabilizing [their] operations, reconstructing [their] accounting records, producing restated and other financial statements, restructuring the Company finances and restoring HealthSouth's credibility—all responses to the crises created as a direct result of the fraud perpetrated while Richard Scrushy was CEO and Chairman." The result was "a cumulative net reduction in shareholders' equity of $3.9 billion."[47] In addition, the company agreed to pay "$100 million to settle a lawsuit claiming violations of federal securities laws" and "$325 million plus interest as part of a global settlement regarding certain alleged inappropriate Medicare billing practices."

Although HealthSouth Corporation's CEO Richard Scrushy was acquitted of participating in a $27 billion accounting fraud, many of his executives plea-bargained deals with the government for more lenient sentences.[48] In 2006, Scrushy was found guilty of paying a half million dollars in bribes to a former Alabama governor in exchange for a seat on a state health-care board. Moreover, the resulting damage to the firm's reputation was a disaster, and their only means of distancing themselves from their former leader was to provide the following comment on the company's website:

> *As HealthSouth continues its unprecedented recovery from a massive fraud that occurred during the tenure of Richard Scrushy as CEO and Chairman, it is astonishing that he would have the audacity and shamelessness to comment on the current operations or the dedication of our approximately 40,000 employees. As we have stated in the past, Scrushy will not be offered any position within the Company by this management team or this Board of Directors. Under no circumstances would we reach out to Scrushy, who by his own defense has claimed a complete lack of knowledge as to the financial workings of the Company during his tenure as CEO and Chairman, despite his claims of possessing valuable expertise.*[49]

Of course, not every unethical decision relates to accounting fraud. Many often begin as a marketing effort, and only in retrospect is it revealed to be unethical. And clearly not every decision becomes a crisis. When Blockbuster introduced its "The End of Late Fees" policy and promotion, a lawsuit brought by the New Jersey attorney general's office over possible deceptive pricing did not seem to dampen Blockbuster's reputation and stakeholder confidence. The attorney general's office was concerned that some consumers did not understand that they would have to pay the cost of the videocassette or DVD if they failed to return movies to Blockbuster within a stated period of time.[50]

crisis management the process of handling a high-impact event characterized by ambiguity and the need for swift action

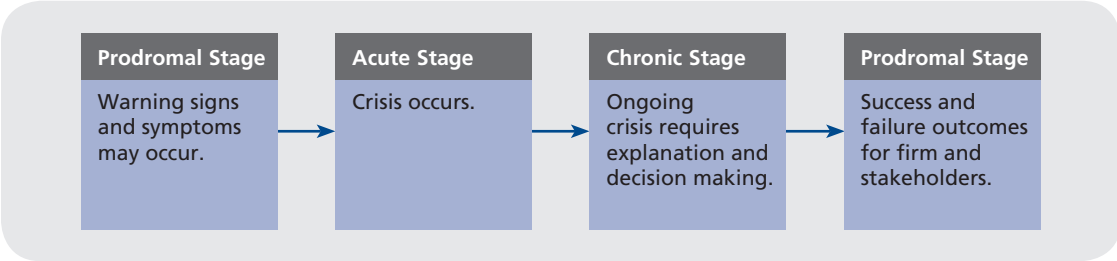
It is critical for companies to manage crises effectively because research suggests that these events are a leading cause of organizational mortality. What follows are some key issues to consider in **crisis management**, the process of handling a high-impact event characterized by ambiguity and the need for swift action. In most cases, the crisis situation will not be handled in a completely effective or ineffective manner. Thus, a crisis usually leads to both success and failure outcomes for a business and its stakeholders and provides information for making improvements to future crisis management and social responsibility efforts.[51]

"The nature of crises requires a firm's leadership to communicate in an often stressful, emotional, uncertain, and demanding context."

Organizational crises are characterized by a threat to a company's high-priority goals, surprise to its membership, and stakeholder demands for a short response time. The nature of crises requires a firm's leadership to communicate in an often stressful, emotional, uncertain, and demanding context. Crises are very difficult on a company's stakeholders as well. For this reason, the firm's stakeholders, especially its employees, shareholders, customers, government regulators, competitors, creditors, and the media, will closely scrutinize communication after a crisis. Hence, a crisis has widespread implications not only for the organization but also for each group affected by the crisis.

To better understand how crises develop and move toward resolution, some researchers use a medical analogy. Using the analogy,

Figure 2.3 Crisis Management Process



the organization proceeds through chronological stages similar to a person with an illness. The prodromal stage is a precrisis period during which warning signs may exist. Next is the acute stage, in which the actual crisis occurs. During the third (or chronic) stage, the business is required to sufficiently explain its actions to move to the final stage, crisis resolution. Figure 2.3 illustrates these stages. Although the stages are conceptually distinct, some crises happen so quickly and without warning that the organization may move from the prodromal to acute stage within minutes. Many organizations faced this situation after Hurricane Katrina crashed into New Orleans and the Mississippi Gulf Coast, disrupting all business and social activity for years.

One of the fundamental difficulties that a company faces is how to communicate effectively to stakeholders during and after a disaster. Once a crisis strikes, the firm's stakeholders need a quick response in the midst of the duress and confusion. They need information about how the company plans to resolve the crisis as well as what each constituent can do to mitigate its own negative effects. If a company is slow to respond, stakeholders may feel that the company does not care about their needs or is not concerned or remorseful, if the company is at fault, about the crisis. Furthermore, a delayed response may in fact increase the suffering of particular stakeholder groups. For instance, some stakeholders may take on considerable debt due to medical expenses as a result of the crisis. Therefore, a rapid response to stakeholders is central to any crisis resolution strategy so that these groups can plan their recovery.

Ironically, crisis events are often so chaotic that a company's leadership may not be certain of the cause of the situation before the media and other relevant groups demand a statement. Thus, it is not surprising for organizations to begin their crisis response with some degree of ambiguity in their statements. In fact, some crisis theorists advise companies to avoid too much detail in their initial response due to the embarrassment that results from changing positions later in the crisis when more information is available. Still, stakeholder groups want and, as a matter of safety in some cases, need access to whatever information the firm can share. Although tensions between the public's needs and the organization's fear of litigation can hamper an organization's willingness to communicate, the demand for information in such situations is unyielding.

Not only should the firm's leadership make a public statement quickly, but it is also necessary for the organization to communicate about specific issues to stakeholder groups. First, leadership should express concern and/or remorse for

the event. Second, the organization should delineate guidelines regarding how it intends to address the crisis so that stakeholders can be confident that the situation will not escalate or recur. Finally, the company should provide explicit criteria to stakeholders regarding how each group will be compensated for any negative effects it experiences as a result of the crisis. Many companies, however, overlook these three essential conditions of crisis management. More often, they focus on minimizing harm to the organization's image, denying responsibility for the crisis, and shifting blame away from the organization and toward other stakeholder groups. Although this may be an appropriate strategy when the firm is not actually responsible, too often companies choose this course of action under the stress of the crisis when they are responsible or partially responsible for the crisis without expressing sufficient remorse for their involvement or concern for their stakeholders.

The varying communication needs and levels of concern of stakeholders during and after a crisis often hamper effective communication. The firm's leadership should try to communicate as much accurate information to these groups as possible to minimize their uncertainty. When a firm fails to do so, its credibility, legitimacy, and reputation in the eyes of stakeholders often suffer. Adding to the complexity of communication challenges, the needs of various stakeholder groups may conflict. For instance, the needs of customers who become ill as a result of a contaminated product and their desire to have medical bills paid may be at odds with the company's ability to bolster its stock price to satisfy shareholders. Some stakeholders will obviously have more opportunities than others to voice their concerns after a crisis. Victims and the general public rarely have an opportunity to meet with the organization's leadership after a crisis. Conversely, the organization's stockholders and employees will likely have a greater opportunity to express their views about the crisis and therefore may have their ideas accepted by management. Some researchers suggest that, due to this ability to communicate directly with leadership, internal stakeholder needs often take precedence over those of external stakeholders. Organizations have a responsibility to manage the competing interests of stakeholders to ensure that all stakeholder groups are treated fairly in the aftermath of a crisis. Responsible companies try to balance the needs of their stakeholders rather than favoring some groups over others. The Walt Disney Corporation experienced a potential crisis of public concern after an elderly woman died riding the Magic Kingdom's Pirates of the Caribbean and a four-year-old died after riding the EPCOT Resort's Mission: Space as well as a series of other incidents.[52] Since Disney is not directly regulated by the state of Florida, it released a written statement to the press and various stakeholders stating that its own engineers deemed the rides safe. At a very small cost, Disney's invitation to state inspectors to inspect its rides sent a message that the company was going beyond the minimum (legal) requirement in its response to recover ground in the perception crisis over ride safety.[53] Organizations that fail to accomplish this communication function risk alienating stakeholder groups and intensifying the negative media attention toward the company. For many reasons, including effective crisis management, organizations need to understand and pursue solid and mutually beneficial relationships with stakeholders.

DEVELOPMENT OF STAKEHOLDER RELATIONSHIPS

Relationships of any type, whether they involve family, friends, coworkers, or companies, are founded on principles of trust, commitment, and communication. They also are associated with a certain degree of time, interaction, and shared expectations. For instance, we do not normally speak of "having a relationship" with someone we have just met. We even differentiate between casual acquaintances, work colleagues, and close friends.

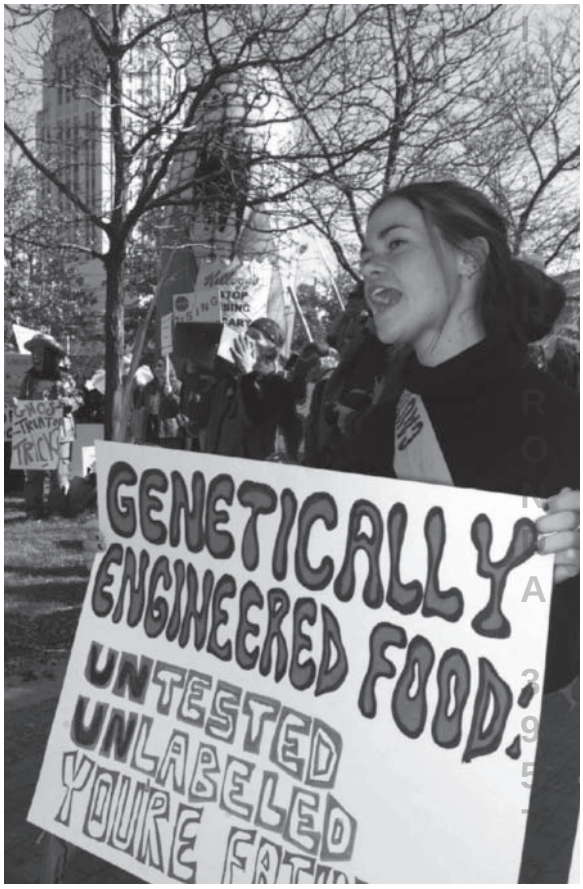
"Instead of just pursuing one-time transactions, companies are now searching for ways to develop long-term and collaborative relationships with their customers and business partners."

In business, the concept of relationships has gained much acceptance. Instead of just pursuing one-time transactions, companies are now searching for ways to develop long-term and collaborative relationships with their customers and business partners.[54] Many companies focus on relationships with suppliers, buyers, employees, and others directly involved in economic exchange. These relationships involve investments of several types. Some investments are tangible, such as buildings, equipment, new tools, and other elements dedicated to a particular relationship. For example, Hormel Foods implemented an Internet-based procurement system that allowed its suppliers to view the firm's production schedules and revise their own business operations accordingly.[55] Other investments are less tangible, such as the time, effort, trust, and commitment required to develop a relationship. Although Hormel's suppliers need the electronic infrastructure and employee knowledge to use the new procurement process, these suppliers must also trust that their relationship with Hormel is solid and will be worth these investments. Some suppliers may have concerns that their investment in Hormel's system may not be transferable to other business opportunities and partnerships. They may also have concerns about information privacy.

Whereas tangible investments are often customized for a specific business relationship, intangible efforts have a more lucid and permeable quality. Although social responsibility involves tangible activities and other communication signals, the key to good stakeholder relationships resides in trust, communication quality, and mutual respect. As a company strives to develop a dialog and a solid relationship with one stakeholder, investments and lessons learned through the process should add value to other stakeholder relationships. For example, Starbucks provides excellent benefits, including health care for part-time employees, and supports fair trade or a fair income for farmers growing its coffee.

social capital
an asset that resides in relationships and is characterized by mutual goals and trust

These efforts result in **social capital**, an asset that resides in relationships and is characterized by mutual goals and trust.[56] Like financial and intellectual capital, social capital facilitates and smoothes internal and external transactions and processes. For example, social capital among companies in the chemical industry led to the development of Responsible Care, a progressive and voluntary program of environmental, health, and safety (EHS) standards. Several high-profile accidents had eroded chemical companies' social capital with their communities, the government, and other stakeholder groups. The Chemical Manufacturers Association implemented the program to promote stronger EHS performance and to "improve the legislative, regulatory, market, and public interest climate for the industry." Thus, Responsible Care was aimed at advancing internal company operations as well as various stakeholder relationships. The industry continues to update and refine the initiative.[57] Unlike financial and intellectual capital, however, social capital is not tangible or the obvious property of one organization. In this same regard, social responsibility is not compartmentalized or reserved for a few issues or stakeholders but should have the companywide strategic focus discussed in Chapter 1.



© AP Photo/Battle Creek Enquirer, John Grap

Two non-governmental organizations, Greenpeace and the Michigan Resistance Against Genetic Engineering, protest the use of genetically engineered foods outside of Kellogg's corporate headquarters

IMPLEMENTING A STAKEHOLDER PERSPECTIVE IN SOCIAL RESPONSIBILITY[58]

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should develop some processes for managing these important concerns. Although many different approaches exist, we provide some steps that have been found effective to utilize the stakeholder framework in managing responsibility and business ethics. The steps include: (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to include feedback from relevant stakeholders in formulating organizational strategy and implementation.

Step 1: Assessing the Corporate Culture

To enhance organizational fit, a social responsibility program must align with the corporate culture of the organization. The purpose of this first step is to identify the organizational mission, values, and norms that are likely to have implications for social responsibility. In particular, relevant existing values and norms are those that specify the stakeholder groups and stakeholder issues that are deemed most important by the organization. Very often, relevant organizational values and norms can be found in corporate documents such as the mission statement, annual reports, sales brochures, or websites. For example, Green Mountain Coffee is a pioneer in helping struggling coffee growers by paying them fair trade prices. The company also offers microloans to coffee-growing families to underwrite business ventures that diversify agricultural economies. It has been on the *Business Ethics* 100 Best Corporate Citizens since 2003 and climbed to the number one position in 2006.[59]

Step 2: Identifying Stakeholder Groups

In managing this stage, it is important to recognize stakeholder needs, wants, and desires. Many important issues gain visibility because key constituencies such as consumer groups, regulators, or the media express an interest. When agreement, collaboration, or even confrontations exist on an issue, there is a need for a decision-making process. A model of collaboration to overcome the adversarial approaches to problem solving has been suggested. Managers can identify relevant stakeholders that may be affected by or may influence the development of organizational policy.

Stakeholders have some level of power over a business because they are in the position to withhold, or at least threaten to withhold, organizational resources. Stakeholders have most power when their own survival is not really affected by the success of the organization and when they have access to vital organizational resources. For example, most consumers of shoes do not have a specific need to buy Nike shoes. Therefore, if they decide to boycott Nike, they have to endure only minor inconveniences. Nevertheless, their loyalty to Nike is vital to the continued success of the sport apparel giant. The proper assessment of the power held by a given stakeholder community also requires an evaluation of the extent to which that community can collaborate with others to pressure the firm.

Step 3: Identifying Stakeholder Issues

Together, steps 1 and 2 lead to the identification of the stakeholders who are both the most powerful and legitimate. The level of power and legitimacy determines the degree of urgency in addressing their needs. Step 3 consists then in understanding the nature of the main issues of concern to these stakeholders. Conditions for collaboration exist when problems are so complex that multiple stakeholders are required to resolve the issue and the weaknesses of adversarial approaches are understood.

For example, obesity in children is becoming an issue across groups and stakeholders. In the current Congress, there are fifty-five bills introduced that contain the word *obesity,* which is approaching the number containing *gun.*[60] According to a recent survey of readers in *The Wall Street Journal*, most people (60 percent) believed that consumers should bear the main burden of health-care costs. Only 28 percent believed the government should bear the burden, and a small 13 percent believed employers should foot the bill for rising costs associated with obesity and other problems.[61]

Step 4: Assessing the Organization's Commitment to Social Responsibility

Steps 1 through 3 consist of generating information about social responsibility among a variety of influencers in and around the organization. Step 4 brings these three first stages together to arrive at an understanding of social responsibility that specifically matches the organization of interest. This general definition will then be used to evaluate current practices and to select concrete social responsibility initiatives. Firms such as Starbucks have selected activities that address stakeholder concerns. Starbucks has formalized its initiatives in official documents such as annual reports, web pages, and company brochures. They have a website devoted to social responsibility. Starbucks is concerned with the environment and integrates policies and programs throughout all aspects of operations to minimize their environmental impact. They also have many community building programs that help them be good neighbors and contribute positively to the communities where their partners and customers live, work, and play.[62]

Step 5: Identifying Resources and Determining Urgency

The prioritization of stakeholders and issues along with the assessment of past performance provides for allocating resources. Two main criteria can be considered. First, the levels of financial and organizational investments required by different actions should be determined. A second criterion when prioritizing social responsibility challenges is urgency. When the challenge under consideration is viewed as significant and when stakeholder pressures on the issue could be expected, then the challenge can be treated as urgent. For example, Wal-Mart has been the focus of legislation in Maryland that forced the retailer to pay more for its employee health care. The legislation requires employers with more than 10,000 workers to spend at least 8 percent of their payroll on employee health care.[63] The legislation is now being considered by twenty-two other states. Wal-Mart recently offered to improve health-care benefits for its employees as a direct result of the pressure.[64]

Step 6: Gaining Stakeholder Feedback

Stakeholder feedback can be generated through a variety of means. First, stakeholders' general assessment of the firm and its practices can be obtained through satisfaction or reputation surveys. Second, to gauge stakeholders' perceptions

of the firm's contributions to specific issues, stakeholder-generated media such as blogs, websites, podcasts, and newsletters can be assessed. Third, more formal research may be conducted using focus groups, observation, and surveys. Websites can be both positive and negative; for example, www.wakeupwalmart.com launched by the United Food and Commercial Workers union has over 115,000 members, and another group called Wal-Mart Watch is also gaining members. Both groups have articles and stories about the retail giant on their websites that do not flatter Wal-Mart. The pressure has forced the retail giant to listen to its consumers and change its ways. To counter the claims by these groups, Wal-Mart launched its own site, www.walmartfacts.com, to tell its side of the story.

In the process of developing stakeholder relationships, most strategies are focused on increasing the trust that a stakeholder has in a particular company. Of course, there is not a "one size fits all" approach for building and sustaining

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trusting relationships with stakeholders. As we discussed earlier in the chapter, not all stakeholders engage with a company with the same level of intensity or locus of control, whether internal or external. For example, employees are highly engaged internal stakeholders while suppliers may be considered low-intensity external stakeholders. Depending on the specific issues at hand, historical interactions, relationships intensity, and other factors, managers must understand the relative importance of transparency, competence, benevolence, integrity, values, and other factors. [65] Table 2.5 explores both conventional wisdom and emerging insights on these factors.

LINK BETWEEN STAKEHOLDER RELATIONSHIPS AND SOCIAL RESPONSIBILITY

You may be wondering what motivations companies have for pursuing stakeholder relationships. As the previous section indicates, a great deal of time, effort, and commitment goes into the process of developing and implementing a stakeholder perspective. Some companies have been accused of "window dressing," or publicizing their stakeholder efforts without having a true commitment behind them. For example, The Body Shop, which has received much positive attention for its social responsibility efforts, has also been accused of selectively communicating information and hiding less favorable company issues.[66] Its latest values report communicates strongly held values that go to the core of the organization and permeate all of its practices. Previously, The Body Shop crafted reports for specific stakeholder groups, and The Body Shop was criticized in 2005 for returning to an all-in-one format no longer crafted for specific stakeholder groups.[67] As was discussed in Chapter 1, social responsibility is a relational approach and involves the views and stakes of a number of groups. Stakeholders are engaged in the relationships that both challenge and support a company's efforts. Thus, without a solid understanding of stakeholders and their interests, a firm may miss important trends and changes in its environment and not achieve strategic social responsibility.

Rather than holding all companies to one standard, our approach to evaluating performance and effectiveness resides in the specific expectations and actual results that develop between each organization and its stakeholders. Max Clarkson, an influential contributor to our understanding of stakeholders, sums up this view:

> *Performance is what counts. Performance can be measured and evaluated. Whether a corporation and its management are motivated by enlightened self-interest, common sense or high standards of ethical behavior cannot be determined by empirical methodologies available today. These are not questions that can be answered by economists, sociologists, psychologists, or any other kind of social scientist. They are interesting questions, but they are not relevant when it comes to evaluating a company's performance in managing its relationships with its stakeholder groups.*[68]

Table 2.6 The Reactive-Defensive-Accommodative-Proactive Scale

Rating	Strategy	Performance	Example
Reactive	Deny responsibility	Doing less than required	Exxon's refusal to continue oil spill clean-up after a certain date
Defensive	Admit responsibility, but fight it	Doing the least that is required	Valero Energy's claim that it meets federal regulations, and therefore community complaints are not legitimate
Accommodative	Accept responsibility	Doing all that is required	General Motors promise of job security if productivity gains were realized
Proactive	Anticipate responsibility	Doing more than is required	Xerox's sharing of product blueprints with suppliers and taking suggestions before production

Source: Max B. E. Clarkson, "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance," *Academy of Management Review* 20 (January 1995): 92–117; I. M. Jawahar and Gary McLaughlin, "Toward a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach," *Academy of Management Review* 26 (July 2001): 397–414.

Although critics and some researchers may seek answers and evidence as to the motivations of business for social responsibility, we are interested in what companies are actually doing that is positive, negative, or neutral for their stakeholders and their stakeholders' interests. The Reactive-Defensive-Accommodative-Proactive Scale (see Table 2.6) provides a method for assessing a company's strategy and performance with each stakeholder. This scale is based on a continuum of strategy options and performance outcomes with respect to stakeholders.[69] This evaluation can take place as stakeholder issues arise or are identified. Therefore, it is possible for one company to be rated at several different levels because of varying performance and transitions over time. For example, a poorly handled crisis situation may provide feedback for continuous improvement that creates more satisfactory performance in the future. Or a company may demonstrate a proactive stance toward employees yet be defensive with consumer activists.

"Today, many organizations are giving money and other resources to community organizations as a way of demonstrating social responsibility."

The reactive approach involves denying responsibility and doing less than is required. This approach can be characterized as "fighting it all the way."[70] A firm that fails to

"It has all the comfort of a regular jet, but it's invisible to shareholders."

Courtesy of CartoonStock.com

invest in safety and health measures for employees is denying its responsibilities. An organization with a defensive strategy acknowledges reluctantly and partially the responsibility issues that may be raised by its stakeholders. A firm in this category fulfills basic legal obligations and demonstrates the minimal responsibility discussed in Chapter 1. With an accommodative strategy, a company attempts to satisfy stakeholder demands by doing all that is required and may be seen as progressive because it is obviously open to this expanded model of business relationships.[71] Today, many organizations are giving money and other resources to community organizations as a way of demonstrating social responsibility. Finally, the proactive approach not only accepts but also anticipates stakeholder interests. In this case, a company sincerely aligns legitimate stakeholder views with its responsibilities and will do more than is required to meet them.[72] Hoechst, a German life sciences company now part of Aventis, gradually assumed the proactive orientation with the communities in which it operates. The initiation of a community discussion group led to information sharing and trust building and helped transform Hoechst into a society-driven company.[73]

The Reactive-Defensive-Accommodative-Proactive Scale is useful because it evaluates real practice and allows an organization to see its strengths and weaknesses within each stakeholder relationship. SABMiller, the second largest brewer in the world, uses a risk assessment program to understand the stakeholders and issues that may pose a potential risk to its reputation. These risks are prioritized, planned for, monitored, and, if necessary, responded to if SABMiller cannot predict, preempt, or avoid the concern.[74] Results from a stakeholder assessment like the one at SABMiller should be included in the **social audit**, which assesses and reports a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders. This book's appendix takes an extensive look at this audit. Because stakeholders are so important to the concept of social responsibility, as well as to business success, Chapters 3 through 10 are devoted to exploring significant stakeholder relationships and issues.

social audit
the process of assessing and reporting a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders

SUMMARY

Stakeholders refer to those people and groups who have a "stake" in some aspect of a company's products, operations, markets, industry, or outcomes. The relationship between organizations and their stakeholders is a two-way street.

The historical assumption that the key objective of business is profit maximization led to the belief that business is accountable primarily to investors and others involved in the market and economic aspects of the organization. In the latter half of the twentieth century, perceptions of business accountability evolved to include both market constituencies that are directly involved with and affected by the business purpose (e.g., investors, employees, customers, and other business partners) and nonmarket constituencies that are not always directly tied to issues of profitability and performance (e.g., the general community, media, government, and special-interest groups).

In the stakeholder model, relationships, investors, employees, and suppliers provide inputs for a company to benefit stakeholders. This approach assumes a relatively mechanistic, simplistic, and nonstakeholder view of business. The stakeholder model assumes a two-way relationship between the firm and a host of stakeholders. This approach recognizes additional stakeholders and acknowledges the two-way dialog and effects that exist with a firm's internal and external environment.

Primary stakeholders are fundamental to a company's operations and survival and include shareholders and investors, employees, customers, suppliers, and public stakeholders, such as government and the community. Secondary stakeholders influence and/or are affected by the company but are neither engaged in transactions with the firm nor essential for its survival.

As more firms conduct business overseas, they encounter the complexity of stakeholder issues and relationships in tandem with other business operations and decisions. Although general awareness of the concept of stakeholders is relatively high around the world, the importance of stakeholders varies from country to country.

A stakeholder has power to the extent that it can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to the organization. Such power may be coercive, utilitarian, or symbolic. Legitimacy is the perception or belief that a stakeholder's actions are proper, desirable, or appropriate within a given context. Stakeholders exercise greater pressures on managers and organizations when they stress the urgency of their claims. These attributes can change over time and context.

The degree to which a firm understands and addresses stakeholder demands can be referred to as a stakeholder orientation. This orientation comprises three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. The process of reputation management involves the interaction of organizational identity (how the firm wants to be viewed), organizational image (how stakeholders initially perceive the firm), organizational performance (actual interaction between the company and stakeholders), and organizational reputation (the collective view of stakeholders after interactions with the company). Stakeholders will reassess their views of the company on the basis of how the company has actually performed.

Crisis management is the process of handling a high-impact event characterized by ambiguity and the need for swift action. Some researchers describe an organization's progress through a prodromal, or precrisis, stage to the acute stage, chronic stage, and finally, crisis resolution. Stakeholders need a quick response with information about how the company plans to resolve the crisis, as well as what they can do to mitigate negative effects to themselves. It is also necessary to communicate specific issues to stakeholder groups, including remorse for the event, guidelines as to how the organization is going to address the crisis, and criteria regarding how stakeholder groups will be compensated for negative effects.

Companies are searching for ways to develop long-term, collaborative relationships with their stakeholders. These relationships involve both tangible and intangible investments. Investments and lessons learned through the process of developing a dialog and relationship with one stakeholder should add value to other stakeholder relationships. These efforts result in social capital, an asset that resides in relationships and is characterized by mutual goals and trust.

The first step in developing stakeholder relationships is to acknowledge and actively monitor the concerns of all legitimate stakeholders. A firm should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder. Information should be communicated consistently across all stakeholders. A firm should be willing to acknowledge and openly address potential conflicts. Investments in education, training, and information will improve employees' understanding of and relationships with stakeholders. Relationships with stakeholders need to be periodically assessed through both formal and informal means. Sharing feedback with stakeholders helps establish the two-way dialog that characterizes the stakeholder model.

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should develop some processes for managing these important concerns. Although there are many different approaches, we provide some steps that have been found effective to utilize the stakeholder framework in managing responsibility and business ethics. The steps include (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to include feedback from relevant stakeholders in formulating organizational strategy and implementation.

The Reactive-Defensive-Accommodative-Proactive Scale provides a method for assessing a company's strategy and performance with one stakeholder. The reactive approach involves denying responsibility and doing less than is required. The defensive approach acknowledges only reluctantly and partially the responsibility issues that may be raised by the firm's stakeholders. The accommodative strategy attempts to satisfy stakeholder demands. The proactive approach accepts and anticipates stakeholder interests. Results from this stakeholder assessment should be included in the social audit, which assesses and reports a firm's performance in fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders.

RESPONSIBLE BUSINESS DEBATE

Prioritizing Stakeholder Concerns

ISSUE: A stakeholder or shareholder orientation—whose company is it?

For decades, the question of "Whose company is it?" has permeated discussions of the role of business in society. Famously, some economists have long argued for the primacy of profit, noting that without economic stability and prospects for growth, a firm cannot continue to pay employees, buy from suppliers, pay taxes, and meet other economic and legal expectations. Adam Smith made this point succinctly, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." In the United States and United Kingdom, the belief is that shareholders are the owners of firms and managers have a fiduciary responsibility to act in the interests of shareholders. The shareholder orientation is dominant in most business and investment communities, although this mindset is shifting.

In other countries, a stakeholder, not shareholder, orientation is the norm. Several European countries operate under a system of "co-determination," where both employees and shareholders in large companies hold seats on the oversight board and are required to consider multiple interests in decision making. In Denmark, employees in firms with more than thirty-five workers elect one-third of the firm's board members, with a minimum of two. In Sweden, companies with more than twenty-five employees have two labor representatives appointed to the board. In large German corporations, employees and shareholders hold an equal number of seats. Finally, in Japan, executives can be liable for managerial negligence, but do not have fiduciary duties to shareholders and are expected to meet an array of stakeholder expectations.

There Are Two Sides to Every Issue:

1. Defend the belief that companies exist first and foremost for the benefit of shareholders and investors. For what reasons should the maximization of shareholder value be the accepted corporate paradigm?
2. Defend the belief that companies, in addition to shareholders and investors, have equally important stakeholders, such as employees, customers, and suppliers. What about responsibilities to the community, society, and the natural environment?

Sources: "Whose Company Is It? New Insights into the Debate over Shareholders vs. Stakeholders," http://knowledge.wharton.upenn.edu/article.cfm?articleid=1826, accessed May 17, 2009; Tibor R. Machan, "Stakeholder vs. Shareholder Theory of the Ethics of Corporate Management," *International Journal of Economics and Business Research* 1 (2009): 12–20.

KEY TERMS

primary stakeholders (p. 51)
secondary stakeholders (p. 51)
stakeholder interaction model (p. 53)
stakeholder orientation (p. 53)
power (p. 57)
legitimacy (p. 58)
urgency (p. 58)
reputation management (p. 60)
crisis management (p. 66)
social capital (p. 69)
social audit (p. 76)

DISCUSSION QUESTIONS

1. Define *stakeholder* in your own terms. Compare your definition with the definition used in this chapter.
2. What is the difference between primary and secondary stakeholders? Why is it important for companies to make this distinction?
3. How do legitimacy, urgency, and power attributes positively and negatively affect a stakeholder's ability to develop relationships with organizations?
4. What is reputation management? Explain why companies are concerned about their reputation and its effects on stakeholders. What are the four elements of reputation management? Why is it important to manage these elements?
5. Define *crisis management*. What should a company facing a crisis do to satisfy its stakeholders and protect its reputation?
6. Describe the process of developing stakeholder relationships. What parts of the process seem most important? What parts seem most difficult?
7. How can a stakeholder orientation be implemented to improve social responsibility?
8. What are the differences between the reactive, defensive, accommodative, and proactive approaches to stakeholder relationships?

EXPERIENTIAL EXERCISE

Choose two companies in different industries and visit their respective websites. Peruse these sites for information that is directed at three company stakeholders: employees, customers, and the media. For example, a company that places its annual reports online may be appealing primarily to the interests of investors. Make a list of the types of information that are on the site and indicate how the information might be used and perceived by these three stakeholder groups. What differences and similarities did you find between the two companies?

WHAT WOULD YOU DO?

Literally hundreds of buildings dotted the ground below and the thousands of cars on highways looked like ants on a mission. The jet airliner made its way to the Bangkok International Airport and eased into the humid afternoon. The group of four passed through customs control and looked for the limousine provided by Suvar Corporation, their Thai liaison in this new business venture. Representing Global Amusements were the vice president of corporate development, director of Asian operations, vice president of global relations, and director of governmental relations for Southeast Asia.

Global Amusements, headquartered in London, was considering the development of a Thai cultural amusement center on the island of Phuket. Phuket is a tourist destination known for its stunning beaches, fine resorts, and famous

Thai hospitality. Both Global Amusements and Suvar Corporation believed Phuket was a great candidate for a new project. The amusement center would focus on the history of Thailand and include a variety of live performances, rides, exhibits, and restaurants. Domestic and international travelers who visited Phuket would be the primary target market.

Global Amusements had been in business for nearly twenty years and currently used a joint venture approach in establishing new properties. Suvar was its Thai partner, and the two firms had been successful two years ago in developing a water amusement park outside Bangkok. Phuket could hold much promise, but there were likely to be concerns about the potential destruction of its beauty and the exploitation of this well-preserved island and cultural reserve.

Following a day to adjust to the time zone and refine the strategy for the visit, the next three days would be spent in Bangkok, meeting with various company and governmental officials who had a stake in the proposed amusement facility. After a short flight to Phuket, the group would be the guest of the Southern Office of the Tourism Authority of Thailand for nearly a week. This part of the trip would involve visits to possible sites as well as meetings with island government officials and local interest groups.

After arriving at the hotel, the four employees of Global Amusement agreed to meet later that evening to discuss their strategy for the visit. One of their main concerns was the development of an effective stakeholder analysis. Each member of the group was asked to bring a list of primary and secondary stakeholders and indicate the various concerns or "stakes" that each might have with the proposed project. What would you do?

CHAPTER 12

Social Responsibility in a Global Environment

Chapter Objectives

- To define cultural intelligence and its importance
- To discuss the global nature of stakeholder relationships
- To examine the importance of national competitiveness
- To describe the role of business in global development
- To explore global standards for social responsibility reporting

Chapter Outline

Cultural Intelligence

Global Stakeholders

National Competitiveness

Global Development

Global Reporting Initiative

OPENING CASE

Poverty Reduction Through Partnerships

The United Nations (UN) is a supraregional organization of nearly two hundred nations and states from all parts of the world. The organization is involved in hundreds of projects and established a set of goals, entitled the Millennium Development Goals, in the early twenty-first century. The first goal is to halve the number of people on earth whose income is less than $1 U.S. per day. Roughly one billion people fall into this category.

To respond to this goal, nongovernment organizations (NGOs) and business groups have worked together in assessing the problems and providing solutions. Oxfam and Unilever collaborated on a research project to (1) investigate the impact of business on the lives of poor people and (2) explore potential links between international business and poverty reduction. Unilever is a global corporation that operates in the food, home-care, and personal-care categories. The company has many well-known brands, including Dove, Lipton, Knorr, Surf, and Vaseline.

Oxfam International is a leading NGO, comprised of twelve organizations and more than 3,000 partners, who are working together on the fight against poverty, suffering, and injustice. Examples of its projects include improving the production of rice in Laos, curbing violence against women in Guatemala, investigating poor labor conditions in Asia, providing emergency food relief in Niger, and teaching farmers in Georgia, once part of the Soviet Union, to grow tropical fruits.

Together, Oxfam and Unilever examined ways in which Unilever's employment, products, and value chain affect the poorest people of Indonesia. Specifically, they were looking for win-win scenarios that linked Unilever's economic development clout with sustainable poverty reduction. Ultimately, this information can be used to assist other companies in understanding how value chains create employment and income, both directly and indirectly. The insights and outcomes from this study include:

1. Cleaning up the Brantas River, so Unilever had clean water for its manufacturing facilities and local residents could begin new businesses using the clean water source.
2. Participating in value chains does not automatically guarantee improvements in the lives of people living in poverty.
3. Employing workers who are closely and more formally linked with Unilever's operations provides greater benefit to the employees and their families.
4. Contracting out employment may reduce a company's ability to monitor the situation and result in gaps between corporate policy and practice.
5. Learning that, in addition to business, other social institutions and resources are needed to create a long-term reduction in poverty.[1]

The expanding global marketplace requires that executives and managers develop the ability to conduct business effectively and socially responsibly in different regions of the world. As the Unilever example illustrates, there are also unique opportunities to successfully apply business resources and interests to solve societal problems.

In this chapter, we elaborate on key topics and concepts discussed in Chapters 1 through 11 by examining the unique nature of issues in the global environment and trends around the world. We discuss the importance of cultural intelligence, delve into the complexities of working with stakeholders, provide emerging trends with primary stakeholders, examine the role of national competitiveness in social responsibility, and point to global standards of social reporting.

CULTURAL INTELLIGENCE

cultural intelligence the ability to interpret and adapt successfully to different national, organizational, and professional cultures

The movement of people across cities and continents means that ideas, values, traditions, languages, and customs have also migrated. While managers in different parts of the world may have unique and even contrasting perspectives, they also identify with a number of similar problems and opportunities, such as employee turnover, new business development, environmental protocols, and product innovation plans. Therefore, any culturally diverse work group will have a set of common experiences and another set of differences that must be recognized and managed. The potential for the group to achieve positive outcomes is largely based on each member's level of cultural intelligence. **Cultural intelligence** is the ability to interpret and adapt successfully to different national, organizational, and professional cultures.[2] There are three components to the development and use of cultural intelligence (CQ):

1. *Cognitive*—Knowledge of economic, legal, ethical, and social systems prevalent in different cultures and subcultures
2. *Motivational*—Intrinsic desire to learn about different cultures and subcultures and the confidence to function effectively in situations where differences are present
3. *Behavioral*—Ability to use appropriate verbal and nonverbal actions when interacting with people from different cultures and subcultures[3]

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Managers who demonstrate cultural intelligence are more effective when conducting business in different countries

Cultural intelligence is desired of all employees, but is mandatory for those who work in different countries, manage diverse groups, and, in general, have responsibilities that require the ability to interpret unfamiliar gestures, behaviors, and situations. These employees must be comfortable suspending immediate judgment and practice "thinking, then acting." For example, when

an American businesswoman made multiple presentations to potential partners in Bangkok, Thailand, she was surprised there were so many side discussions while she presented. Since she did not speak Thai, she did not know the content of their discussions and wondered if they were bored, disinterested, or even disrespectful. She decided to relax, continue, and accept the chatter. It occurred to her that these side discussions were likely a cultural norm, or perhaps, simply the act of translating key points to a colleague who had less familiarity with English. In this example, the businesswoman demonstrated strong cultural intelligence and, in so doing, ensured that her company established a strong market presence in Thailand and Southeast Asia. If she had shown anger or frustration, the potential partners might have decided to take their business elsewhere.

Figure 12.1 provides a short self-assessment activity to determine your own CQ.

The effective practice of cultural intelligence requires a manager to parcel out what actions are true of all people, those that are unique to a particular group or culture, or whether the action lies somewhere along this continuum.[4] A person with high CQ will be skilled at recognizing how one individual or group is influenced by national, professional, and organizational cultures. For example, there are multiple layers of cultural effects to manage when an Irish manufacturing process expert from a consulting firm works with a Croatian engineer for a government agency. The Irish expert would have to interpret and act according to Croatia's national culture, laws and governmental system, the agency's role and scope, the engineering profession's code of ethics, and the engineer's personality and values. Therefore, to achieve social responsibility in a global context, CQ is integral. Cognitively, employees are obliged to learn the rules, values, and standards of different cultures. This entails studying the history, law, symbols, customs, and related facets of a new culture. Motivationally, they should be willing and confident enough to adapt to these standards, but also strong enough to resist adapting when a legal, ethical, or other social responsibility expectation is in jeopardy. Finally, employees must develop a keen capacity to mirror gestures, words, and other behaviors that demonstrate they have "entered the world" of their cultural counterparts.[5]

"A person with high cultural intelligence (CQ) will be skilled at recognizing how one individual or group is influenced by national, professional, and organizational cultures."

It is important to remember that even one country is not entirely homogeneous. The extent to which a country has experienced immigration, supported and encouraged diversity, and realized the "melting pot" effect determines the internal homogeneity or heterogeneity of the country. For example, Japan, Norway, Saudi Arabia, and Poland are relatively homogeneous when compared to India, Australia,

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Britain, the United States, and Canada. The world's 200 countries contain 5,000 different ethnic groups. Approximately two-thirds of all countries have at least one minority group that comprises 10 percent of the total population and, therefore, represents a distinct subculture.[6] In more heterogeneous countries, astute managers will need to recognize and respond to subcultures. This, of course, requires a higher commitment to the cognitive, motivational, and behavioral aspects of CQ amidst an array of stakeholder interests and influences.

GLOBAL STAKEHOLDERS

In Chapter 1, we defined stakeholders as those people and groups to whom an organization is responsible—including customers, investors and shareholders, employees, suppliers, governments, communities, and many others—because they have a "stake" or claim in some aspect of a company's products, operations, markets, industry, or outcomes. These groups not only are influenced by businesses, but they also have the ability to affect businesses. Table 12.1 describes stakeholder issues that are likely to be present when planning and conducting

Table 12.1 Examples of Stakeholder Issues in a Global Environment

Stakeholder Groups	Potential Issues
Employees	Wages and benefits relative to home country standards
	Attitudes toward employees from different genders and ethnicities, especially in executive positions
	Existence of collective bargaining efforts
	Laws and regulations for employee rights, health, and safety
	Norms of employee volunteering
	Availability and comfort with open-door policies and other management practices
Customers	Laws and regulations on product safety and liability
	Presence and power of consumer rights groups
	Respect for the product needs of subcultures and minority groups
	Attitudes and accommodations for customers with disabilities
Shareholders	Laws and regulations regarding ownership and corporate governance
	Stability and governance of stock exchanges
	Willingness and ability to participate in shareholder meetings
Suppliers	Ethical and social considerations in the supply chain
	Prices offered to suppliers in developed countries and developing countries in comparison to other suppliers
	Availability and attitudes toward minority suppliers
Community	Norms of community relations and dialogue
	Expectations of community service and/or philanthropy
	Rights of indigenous people
	Availability and quality of infrastructure (roads, utilities, schools, etc.)

(continued)

Table 12.1 (continued)

Environmental Groups	Environmental law and regulations
	Availabilty of "green" electricity, recycled materials, and other environmentally friendly inputs
	Environmental expectations relative to those in home country
	Use of natural resources to achieve business goals

business outside of the home country. Note that these issues include economic, legal, ethical, and philanthropic considerations of other cultures and countries.

From an economic perspective, differences in the development of countries can easily pose new challenges with stakeholders. As more companies have moved manufacturing and customer services operations to less-developed nations, critics opine about job loss in the home country and the pay and working conditions in the new operation. While overseas outsourcing adds another layer of complexity for management, economic considerations for cost-cutting typically trump social and political concerns. Some firms report 50 percent savings on salary costs and note the eagerness and productivity of workers, meaning that the salary dollar goes even further in less-developed nations.[7]

Clearly, the legal and regulatory environment varies from country to country. Managers will need to understand the written code as well as the nuances to implementation and enforcement. One of the most widely discussed stakeholder issues in the global economy is the extent to which "facilitating payments" or bribery is a common and expected practice. Since the passage of the Foreign Corrupt Practices Act during the Watergate-era, United States–based multinational corporations have claimed the law severely reduces their ability to compete in the global marketplace. Energy companies are under investigation for making payments to Nigerian customs officials. One automotive manufacturer is fighting claims that it paid government officials in Eastern Europe, Asia, and Africa in order to win lucrative contracts. The number of bribery cases filed by civil and criminal investigators has more than doubled in the United States over the past five years. This resurgence is supported by new efforts in the European Union and Japan to prosecute bribery cases.[8]

Beyond the complexities of the law lay the ethical standards of stakeholders around the world. As discussed in earlier chapters, several factors influence the ethical decision-making process, with top management setting the tone and expectations for all employees and, increasingly, suppliers and business partners. For companies with operations in several countries, the code of conduct originating from the home office may not provide sufficient guidance. The United Parcel Service (UPS) published its first ethics code for domestic employees in 1996 but soon realized an international version was needed. Instead of imposing the American version, the company established advisory panels in different regions and conducted thirty-five focus groups around the world. Using the domestic code as a starting point, UPS ultimately produced twenty-eight codes of conduct for its overseas operations. The codes incorporated cultural differences that did not override key corporate values. For example, UPS employees in France knew that a

policy prohibiting alcohol consumption would not work; in France, it is customary to have a glass of wine at lunch. When language experts started to translate antitrust law into other languages, it translated as "against trust" and needed to be revised. Executives at UPS acknowledge the tremendous resources expended on the process, but are confident the culturally intelligent approach is most effective.[9]

Finally, the philanthropic expectations of stakeholder are also subject to wide variation. While the United States is steeped in a culture of business philanthropy and employee volunteerism, this is not true around the world. In Latin America, for example, the roots of philanthropy extend to the Catholic Church, which provided education, health care, and social services. Later, wealthy families provided funds to "secular societies of social benefit" that implemented welfare and social projects. Corporate interest in philanthropy is more recent, but has grown significantly as a way for business to become socially engaged. The Inter-American Development Bank hosts an annual conference for Latin American business leaders to learn more about social responsibility and philanthropy. Attendance has tripled over the past eight years and outgrowths include increases in corporate social investing, social reporting activities, and membership associations for philanthropy executives.[10]

Shareholder Relations and Corporate Governance

While the prospect for global agreement on economic, legal, ethical, and philanthropic standards for business may seem far-fetched, existing efforts hold great promise. In whatever form it takes, a successful initiative must begin and end with the role of corporate governance and shareholder power in corporate decision making. First and foremost, the board of directors must be committed to a system of oversight, accountability, and control that incorporates a social responsibility perspective. Without this commitment, checks and balances are not in place to limit opportunism and self-interests, advocate for stakeholder rights, or ensure that a firm's corporate culture establishes integrity in all relationships. As discussed in Chapter 3, corporate governance reflects fundamental beliefs about the purpose of business organizations—ranging from maximizing shareholder value to a more collaborative and relational approach with multiple stakeholders.

The movement to write and implement widely accepted codes of conduct is several decades old and was foreshadowed by social activists who derided apartheid in South Africa and urged companies to withdraw their investments and business interests from the country. Led by Reverend Leon Sullivan, who sat on the board of General Motors, interested citizens and other groups developed requirements any company should demand for its employees and workplace conditions. These standards covered nonsegregation, equal, and fair compensation, programs to move minorities into management ranks, and other measures that clearly conflicted with South African law permitting racial segregation and unequal rights. Eventually, the Sullivan Principles were adopted by over one hundred companies in the United States and included their withdrawal of existing operations and investments from South Africa.[11]

Since the Sullivan Principles, several groups have developed codes of conduct or similar documents in an effort to build multicultural agreement on acceptable corporate governance and business practices. Perhaps the most successful initiative resulted in the Caux Round Table Principles for Business found in Table 12.2.

Table 12.2 Caux Round Table Principles for Business

PRINCIPLE 1 – RESPECT STAKEHOLDERS BEYOND SHAREHOLDERS
• A responsible business acknowledges its duty to contribute value to society through the wealth and employment it creates and the products and services it provides to consumers.
• A responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders.
• A responsible business respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors, and the broader community.
PRINCIPLE 2 – CONTRIBUTE TO ECONOMIC, SOCIAL, AND ENVIRONMENTAL DEVELOPMENT
• A responsible business recognizes that business cannot sustainably prosper in societies that are failing or lacking in economic development.
• A responsible business therefore contributes to the economic, social, and environmental development of the communities in which it operates, in order to sustain its essential "operating" capital – financial, social, environmental, and all forms of goodwill.
• A responsible business enhances society through effective and prudent use of resources, free and fair competition, and innovation in technology and business practices.
PRINCIPLE 3 – RESPECT THE LETTER AND THE SPIRIT OF THE LAW
• A responsible business recognizes that some business behaviors, although legal, can nevertheless have adverse consequences for stakeholders.
• A responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations.
• A responsible business always operates with candor, truthfulness, and transparency, and keeps its promises.
PRINCIPLE 4 – RESPECT RULES AND CONVENTIONS
• A responsible business respects the local cultures and traditions in the communities in which it operates, consistent with fundamental principles of fairness and equality.
• A responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively.
PRINCIPLE 5 – SUPPORT RESPONSIBLE GLOBALIZATION
• A responsible business, as a participant in the global marketplace, supports open and fair multilateral trade.
• A responsible business supports reform of domestic rules and regulations where they unreasonably hinder global commerce.
PRINCIPLE 6 – RESPECT THE ENVIRONMENT
• A responsible business protects and, where possible, improves the environment, and avoids wasteful use of resources.
• A responsible business ensures that its operations comply with best environmental management practices consistent with meeting the needs of today without compromising the needs of future generations.
PRINCIPLE 7 – AVOID ILLICIT ACTIVITIES
• A responsible business does not participate in, or condone, corrupt practices, bribery, money laundering, or other illicit activities.
• A responsible business does not participate in or facilitate transactions linked to or supporting terrorist activities, drug trafficking, or any other illicit activity.
• A responsible business actively supports the reduction and prevention of all such illegal and illicit activities.

Source: Caux Round Table, "Principles for Business," http://www.cauxroundtable.org/, accessed August 15, 2009.

The round table consists of business leaders from all regions of the world who have a strong desire and interest in promoting socially responsible capitalism. The group was founded in 1986 by Frederick Phillips, former president of Phillips Electronics, and Olivier Giscard d'Estaing, former vice-chair of INSEAD, a preeminent business school. Although the original intent was to reduce trade tensions, the round table quickly turned to global corporate responsibility and established its principles. Today, the group's governing board includes executives from multinational corporations, such as CEMEX (Mexico), Microsoft Corporation (United States), Central Nippon Expressway Company (Japan), Banyan Tree Holdings (Singapore), Blanco GmbH & Company (Germany), and Westpac Banking (Australia).[12]

In addition to this fundamental guidance, the Caux Round Table publishes periodic opinions on a range of social responsibility issues, including executive compensation, environmental protection, corruption, Wall Street, and recovery from economic crisis. For example, Table 12.3 enumerates the round table's plan for restoring trust in the global financial system. The seven recommendations are explicit on enhancing the role and expectations of the board of directors, integrating stakeholders into company policy, implementing risk assessment across social responsibility issues, and ensuring that executive pay is linked to long-term corporate performance. We discussed similar concerns in Chapter 3, reflecting the ongoing dialogue about improving and streamlining corporate governance in a global economy.

Table 12.3 The Caux Round Table's Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System

1. Require board directors to consider interests beyond shareholders, which may affect the company's success, by codifying the principle of *"enlightened shareholder value"* in company law.
2. Require minimum standards of corporate governance knowledge and expertise for corporate board directors.
3. Require corporate boards to have a dedicated board committee responsible for risk oversight across the full spectrum of risks—financial, governance, social, environmental.
4. Regulate executive remuneration structures to ensure that they are consistent with prudent risk management, align with long-term wealth creation, and do not reward poor performance.
5. Implement stronger and globally coordinated financial and banking regulatory reforms to prevent systemic risk build-up or market manipulation.
6. Regulate all financial market instruments and investment activities that materially impact on financial system stability and on superannuation and pension system viability.
7. Reform and adequately resource the IMF and other multilateral institutions to ensure they are effective forces for economic and social justice globally.

Source: Caux Round Table, "Seven Point Reform Plan to Restore Trust in Business and in the Global Financial System," press release March 30, 2009, http://www.cauxroundtable.org/newsmaster.cfm?&menuid=99&action=view&retrieveid=11, accessed August 15, 2009.

"Meeting the economic, legal, ethical, and philanthropic expectations of employee stakeholders in different countries is clearly complex."

Employee Relations

A critical consideration for companies conducting business around the world is how to manage differences that exist in employment standards and expectations. Modern corporations recognize the importance of tapping into global markets and talent pools in order to remain competitive. Even in the best cases, building a workforce, especially a dedicated, engaged, and satisfied one, takes strategic planning and daily oversight by management. Executing this process in a new culture or across cultures takes more than merely transferring the policies and practices from the home country and home office. Meeting the economic, legal, ethical, and philanthropic expectations of employee stakeholders in different countries is clearly complex. For example, Table 12.4 outlines ten key differences between employment law in Canada and the United States. Even in culturally similar nations, there are important variances to learn and consider.

Longitudinal research has affirmed what many global managers already know: Employee attitudes and perceptions about work vary from country to country. As discussed in Chapter 7, employees typically value high ethical standards and volunteer activities, and they become more loyal and satisfied with their employer when these are present. Thus, understanding the variations in employee attitudes and perceptions is integral to the successful implementation of social responsibility programs. For example, workers in France value a work-life balance more than any other national group. Japanese employees are often pleased with incentive compensation but lament relatively low base pay. Australians want a manager who acts as a coach, and Chinese employees yearn for more training opportunities.

In its annual survey, Mercer, an international research firm, has identified the factors most important for **employee engagement**, the psychological state in which employees feel a vested interest in the company's success and are motivated to perform at levels that exceed job requirements. Figure 12.2 depicts the results of Mercer's annual study of employees in Brazil, China, the United Kingdom, and the United States. While national differences are clear, Mercer has also identified four global drivers of employee engagement. Employees in different parts of the world are fairly consistent in noting the importance of (1) the work itself, including opportunities for development; (2) confidence and trust in leadership; (3) recognition and rewards; and (4) organizational communication. This information is valuable to managers, as it improves the cognitive nature of cultural intelligence and provides direction on motivational and behavioral competencies that should be impactful across nations. In addition, understanding the

employee engagement the psychological state in which employees feel a vested interest in the company's success and are motivated to perform at levels that exceed job requirements

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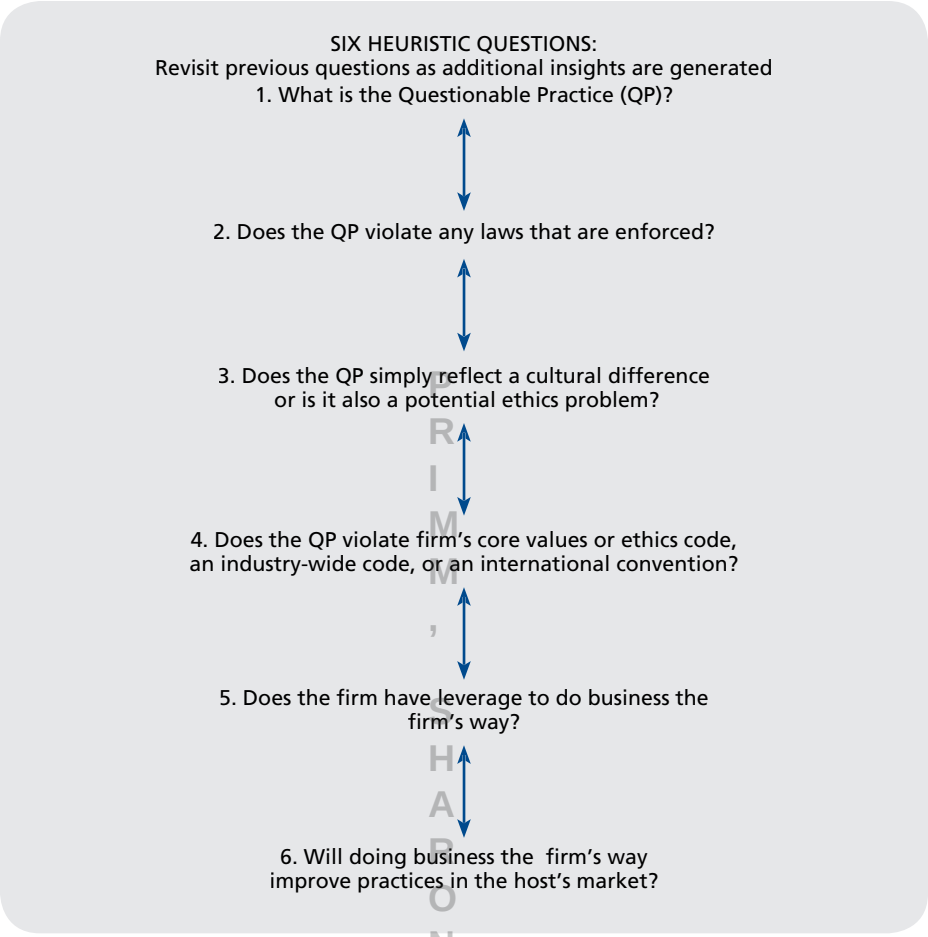
four drivers enables human resource (HR) professionals to inculcate consistency across some HR policies in a multinational firm.[13]

As discussed earlier in this chapter, cultural intelligence (CQ) is an integral part of employees' ability to manage and succeed in a global economy. In the context of business ethics, CQ is especially critical. Applying the legal requirements of the host or home country to the problem may be a starting point. However, as we have noted, legal standards are not sufficient for a firm dedicated to ethical business practices. Some industries operate under a set of values or principles, which may also serve a purpose in the international arena. For example, the tourism industry has established a global code of ethics that enumerates the industry's obligation to build respect between societies, assist in sustainable development, maintain cultural heritage, treat employees well, and promote individual fulfillment.[14] In other cases, guidance from a broad set of guidelines, such as the Caux Round Table Principles for Business, can be utilized. However, broad principles are often less useful in day-to-day situations.

The ethical decision-making framework discussed in Chapter 5 is fully effective in the global environment, but cultural differences introduce new complexities to the process. For this reason, companies know that training rubrics are pivotal to an employee's ability to assess an ethical issue and determine the most appropriate decision and action. Figure 12.3 describes a heuristic model for employees in multinational enterprises, as it explicitly incorporates questions about differences in law, customs, values, and other cultural phenomena. The heuristic approach is designed to take the decision maker through a straightforward method of solving a particular problem. In practice, there will be information lacking, unknown

Figure 12.3 Heuristic Model of Ethical Decision Making



Source: J. Brooke Hamilton, Stephen B. Knouse, and Vanessa Hill, "Google in China: A Manager-Friendly Heuristic Model for Resolving Cross-Cultural Ethical Conflicts," *Journal of Business Ethics* 86, no. 2 (2009): 143–157.

variables, and perhaps, a continuous loop throughout the six questions until the employee is confident in the ethical action to be taken.[15]

Consumer Relations

International trade leaves some members of the economy, whether independent or corporate, marginalized and vulnerable to economic exploitation. From some consumer perspectives, conventional trade interferes with the ability of many people, particularly those in poor nations, to secure basic, sustainable livelihoods and have the opportunity to develop further. By contrast, **fair trade** is a trading partnership based on dialogue, transparency, and respect that seeks greater equity in international trade and contributes to sustainable development. Fair trade benefits those

fair trade a trading partnership based on dialogue, transparency, and respect that seeks greater equity in international trade and contributes to sustainable development

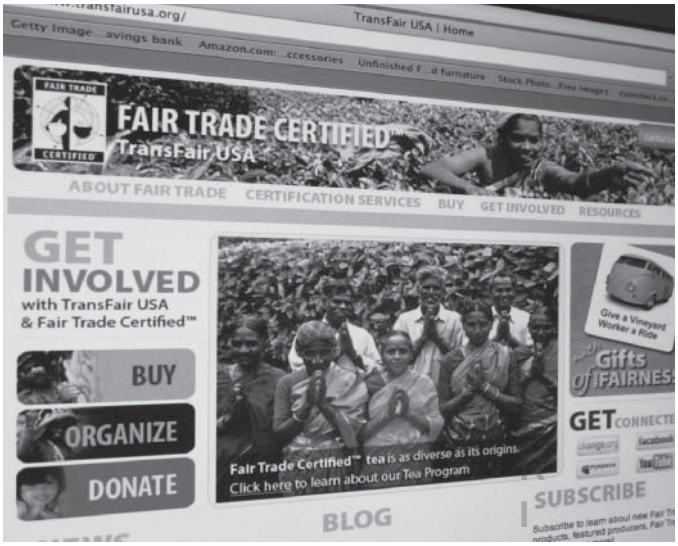


Photo courtesy of Susan Van Etten

Consumers are increasingly interested in purchasing fair trade certified products
Source: TransFair USA, http://www.transfairusa.org/, accessed August 13, 2009.

who have limited opportunities to begin with and are further stunted by market forces that identify them as negligible. Table 12.5 describes the five principles of fair trade organizations, including the rights and responsibilities of producers, intermediaries, business partners, resellers, and consumers.

Products that meet fair trade standards are licensed to display the Fair Trade Certified label. The label signifies fair trade certification and stands for a producer's adherence to fair economic, social, and environmental practices in producing and selling the product. In 2008, there were nearly nine hundred organizations that produced fair trade products. The organizations were in fifty-eight countries and represented almost 1.5 million farmers and workers. When adjusted for economic effects on families and dependents, fair trade is estimated to have benefitted 7.5 million people. Over the past few years, fair trade product sales grew an average of forty percent each year, representing strong acceptance by retailers and consumers.[16]

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As fair trade statistics reveal, consumers are increasingly concerned with the origins of products they purchase, including the working conditions, ethical standards, and related social responsibility practices of manufacturers. For example, child labor and substandard working conditions have historically marked the reputation of football manufacturers. In an effort to minimize these costs, the International Fairtrade Labelling Organizations International certified footballs in 2002 and has since awarded its certification to five producers. Footballs and other sports balls were among the first non-food products to be certified. In the United States, Fair Trade Sports, Inc., distributes Fair Trade Sports Balls that are produced by adults working in safe and healthy manufacturing conditions.

Rice farming appears all over the world and is responsible for billions of jobs, making it important in the social well-being of numerous communities. The pesticides and chemicals used in rice farming initially increase production but eventually work to reduce production and negatively affect workers' health. A decline in global rice prices can find farmers in extremely difficult situations. Often when prices fall, farmers must apply for loans with high interest rates or lose their livelihoods. Areas particularly dense with rice farms are reported to have high suicide rates and incidents of children being sold for sex. Fair trade rice seeks to improve these conditions by providing

"Consumers are increasingly concerned with the origins of products they purchase, including the working conditions, ethical standards, and related social responsibility practices of manufacturers."

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stability in the market, seeking organic methods, and regulating of the use of chemicals in production.[17]

Finally, GlobeScan recently completed a study that indicates many consumers are committed to sustainable development through fair trade. The majority of Americans believe that companies working with poor countries should provide fair pay, safe work environments, and community development contributions. The Fair Trade Certified label positively affects 81 percent of American consumers, and just over half of those surveyed would pay more for fair trade certified products. The study, along with other reports, suggests the durability of fair trade certified products during times of economic downturn. Even in the wake of a global recession, attitudes remain favorable for fair trade products and retailers are pleased to stock their shelves for interested consumers (see Table 12.6).[18]

NATIONAL COMPETITIVENESS

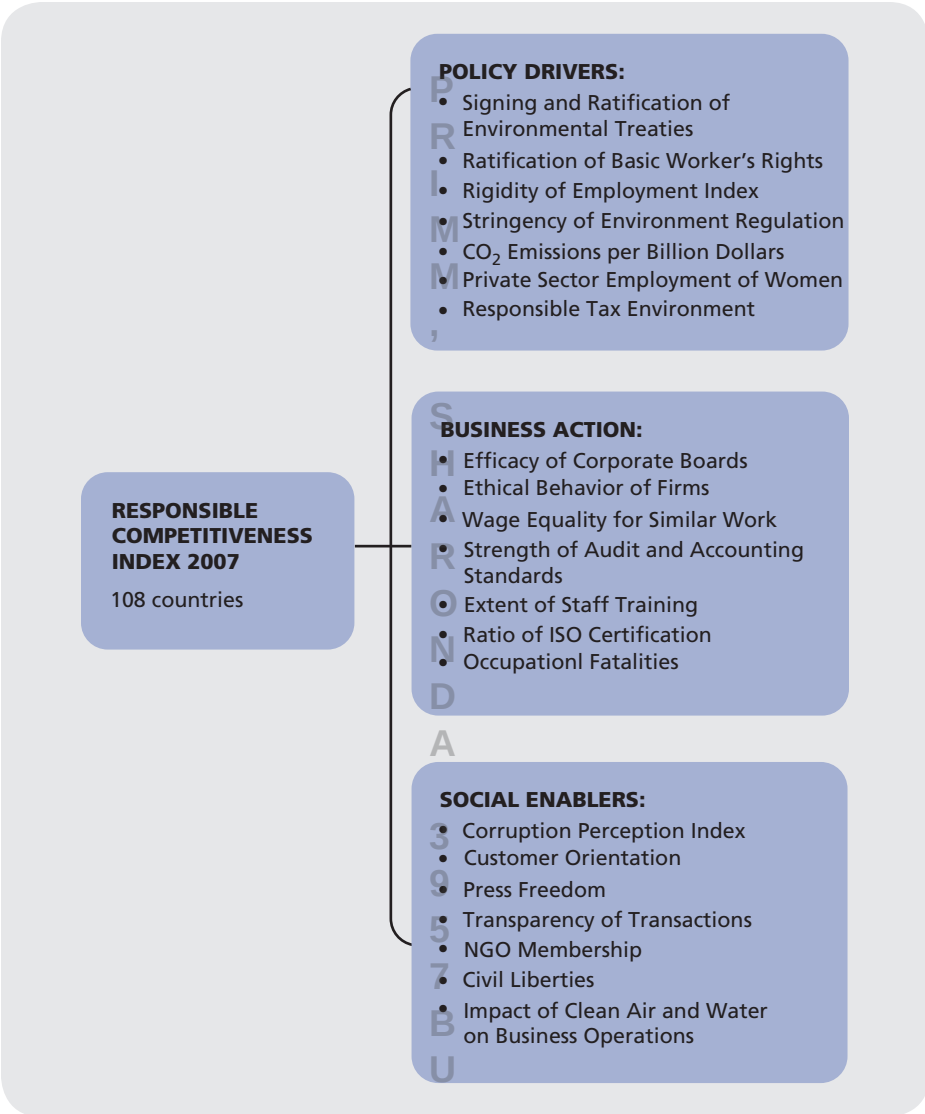
Chapter 1 described the link between social responsibility and national economies. The reflexive nature of the global economy means that the success of a particular company is a function of many factors, including the extent to which the firm's home country is comprised of trust-based institutions. Some nations have well-developed systems for ensuring economic, legal, and ethical standards in business activities. In other cases, corporations are interested in a particular market, but know that fundamental institutions and standards are sorely underdeveloped and negatively affect market potential.

responsible competitiveness involves the positive effects of socially responsible business practices on a nation's economic success

The Responsible Competitiveness Index (RCI), published by AccountAbility, contextualizes competitiveness within a sustainable development paradigm and measures a country's ability to achieve economic growth through responsible business practices. Therefore, **responsible competitiveness** involves the positive effects of socially responsible business practices on a nation's economic success. The RCI is guided by the notion that "Securing responsible and successful business practices can only be achieved through the combined effects of engaged businesses, smart public policy, and a vibrant civil society."

In *The State of Responsible Competitiveness* reports, sustainable development and other social responsibility practices are understood as opportunities on which organizations may capitalize to increase the stability of their future economic growth. Data for the report is provided by credible, disinterested sources such as the World Bank Institute and Transparency International. The RCI identifies twenty-one indicators, which are measured using hard data and subjective findings of survey results. Figure 12.4 describes the indicators for each of the three drivers of responsible competitiveness:

Figure 12.4 Drivers of Responsible Competitiveness



Source: AccountAbility, "The State of Responsible Competitiveness 2007," http://www.accountability21.net/uploadedFiles/publications/The_State_of_Responsible_Competitiveness.pdf, accessed August 8, 2009.

1. Policy drivers indicate the degree to which public policy and "soft power" entice organizations to utilize responsible practices.
2. Business action indicates the degree to which responsible practices, codes, and management systems are utilized.
3. Social enablers indicate the conduciveness of the socio-political environment to government and organization collaboration reshaping markets.[19]

Based on the RCI, countries may be categorized at four stages of development with respect to policy drivers, business action, and social enablers. Table 12.7

Table 12.7 Selected Countries in Responsible Competitiveness Index (RCI) Clusters: Starters, Compliers, Asserters, and Innovators

Starters	Compliers	Asserters	Innovators
Angola	Argentina	Chile	Australia
Bangladesh	Brazil	Costa Rica	Austria
Bolivia	Bulgaria	Czech Republic	Belgium
Cambodia	Colombia	Estonia	Canada
Chad	Croatia	Greece	Denmark
China	Egypt	Hungary	Finland
Ecuador	Georgia	Israel	France
Ethiopia	Honduras	Italy	Germany
Kenya	India	Jamaica	Hong Kong, China
Madagascar	Indonesia	Korea, Rep.	Iceland
Malawi	Jordan	Kuwait	Ireland
Mongolia	Mexico	Lithuania	Japan
Morocco	Nicaragua	Malaysia	Netherlands
Nepal	Panama	Portugal	New Zealand
Nigeria	Peru	Slovenia	Norway
Pakistan	Philippines	South Africa	Singapore
Russian Federation	Poland	Spain	Sweden
Uganda	Romania	Taiwan, China	Switzerland
Ukraine	Turkey	Thailand	United Kingdom
Zambia	Venezuela, RB	United Arab Emirates	United States

Source: AccountAbility, "The State of Responsible Competitiveness, 2007," http://www.accountability21.net/uploadedFiles/publications/The%20State%20of%20Responsible%20Competitiveness.pdf, accessed August 8, 2009.

classifies countries as either starters, compliers, asserters, or innovators. In general, more developed nations score higher on the RCI, especially those in Europe. Thirteen of the top twenty countries are European, with Sweden receiving the highest rating for integrating responsible business practices into its national economy. Other Nordic countries, including Denmark and Norway, score in the top six. The emerging economies of Chile, Republic of Korea, and Malaysia actually score better on the RCI than a number of states that have recently joined the European Union, such as Poland, Romania, and Bulgaria. Uganda and Zambia have responsible competitiveness indexes that belie their relatively low level of economic development. Conversely, countries with similar levels of development, including Bangladesh, Cambodia, and Morocco, score relatively low on the RCI. Overall, the RCI provides conclusions that mirror our discussions in Chapter 1—social responsibility reinforces the economic competitiveness of countries.[20]

GLOBAL DEVELOPMENT

While companies certainly benefit from national competitiveness, businesses are increasing efforts to enhance the infrastructure, human rights, and educational systems of particular countries, states, and cities. According to Amartya Sen, winner of the Nobel Prize in Economics, political, social, and economic freedoms are fundamental to national competitiveness and development. Without widespread trust and the effective operations of different institutions, a given society will not be able to enhance and enrich the lives of its people. Sen refers to the contagion effect of freedom; political freedoms, such as free speech and elections, lead to economic security. Social freedoms in terms of education and health care also lead to stronger economic participation. Finally, economic security frees people to participate in social and political activities.[21] Multinational corporations are increasingly interested in mechanisms for promoting freedom and development.

Development refers to improvement in the economic, environmental, educational, and health conditions of a country. Common issues in development include poverty, health-care quality, access to education, voting rights, water quality, governance and rule of law, domestic finance systems, and climate change. A major goal of the United Nations (U.N.) is to realize improvements in the development of countries around the world. While these improvements may be grounded in ethical reasons, they are also critical to the stability of the global economy. Essentially, the U.N. is working from the philosophy that "a rising tide lifts all boats." In other words, it is in the world's best interest to tackle problems that limit the capacity of some people to live healthy and prosperous lives. The U.N.'s Millennium Development Goals, which are designed to meet these challenges, include: (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) eliminate gender disparity in primary and secondary education; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria, and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development.

development refers to improvement in the economic, environmental, educational, and health conditions of a country

Table 12.8 provides more information on these issues, including targets the U.N. is striving to meet by 2015.

At the World Summit for Sustainable Development in 2002, Kofi Annan, seventh Secretary-General of the U.N., declared, "The Summit represents a major leap forward in the development of partnerships with the U.N., governments,

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business and civil society coming together to increase the pool of resources to tackle global problems on a global scale."[22] The U.N.'s Global Compact, a set of ten universally accepted principles in the areas of human rights, labor, environment, and anticorruption, was the key driver behind Annan's proclamation. The Global Compact was first introduced in 2000, and today approximately 3,000 companies have officially declared their commitment to these principles. Figure 12.5 replicates the "corporate commitment" to the Global Compact, including the five expectations of membership. Corporate signatories attest to their willingness to integrate the ten principles into everyday business practices,

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publish examples of its commitment and projects on an annual basis, and commit to a stronger alignment between the objectives of the international community and those of the business world.[23]

Although the U.N. has been most progressive in gaining corporate support for global development and popularizing business partnerships, corporations have aligned themselves with nonbusiness organizations to advance development for a number of years.[24] For example, a company may be interested in building an offshore call center yet realizes roadways and utilities need to be improved in the area. In another situation, a firm may know a natural resource is abundant in a developing country, yet realizes the people and government of the country do not have the economic and educational resources to market it worldwide. In both cases, the company may choose to invest resources by partnering with the local government, nonprofit agencies, and other nongovernmental organizations (NGOs). Critics muse that while this approach certainly has a social component, the business case for profit-making is the overriding concern. An extensive review of the outcomes of development partnerships between large oil companies and local governments in the Nigerian Delta region revealed (1) the linkage between improvement in social infrastructures and economic growth is nonexistent, (2) because these communities have long been neglected, it is almost impossible for business investments to make significant gains, and (3) business-driven investment in social infrastructure has been unevenly distributed and failed to prioritize community needs.[25] Conversely, there are examples of highly successful partnerships.

"Many diverse types of partnerships for development exist; businesses may join with government, multilateral bodies, nongovernmental organizations, local community organizations, charity groups, industry coalitions, or others."

Many diverse types of partnerships for development exist. While the partnership consists of at least one public entity and one private entity, the specific kinds of public and private entities involved vary to include a wide range of social and economic players. Businesses may join with government, multilateral bodies, NGOs, local community organizations, charity groups, industry coalitions, or others. However, each partnership must confront two elements: the level of social control via stakeholder influence they maintain, and the challenges they pose to conventional business management and goals. In light of these two points, partnerships for development may be categorized into four types: conventional business partnerships, corporate social responsibility partnerships, corporate accountability partnerships, and social economy partnerships. Table 12.9 provides a brief description of the four types.

Table 12.9 Four Types of Partnerships for Development

Conventional business partnerships are found in infrastructure sectors and their main focus is on increasing efficiency in the delivery of a certain product or service. Consumers receive the benefits of increased efficiency. Government monitors efficiency gains and ensures access and affordability for vulnerable members of society. Partners benefit from revenue generated. Social responsibility is rarely a consideration. Example: privatization of public utilities.
Corporate social responsibility partnerships provide resources and enhance economic opportunities of partners in a win-win fashion. Agreements are voluntary, business-friendly, and often based on core values and social responsibility. These are also present after fall-out from a scandal. Example: microcredit lending to promote small business development.
Corporate accountability partnerships typically focus on developing rules and transparency around key social issues. They establish a set of requirements and framework for accountability, and utilize third-party review. Example: Fair Labor Association accountability standards and process.
Social economy partnerships are based on a core social mission, not just profit. They provide different types of support, especially to fledging start-ups. Partners benefit from relationships they develop with other social economy partners. Example: Fair trade.

Source: Ananya Mukherjee Reed and Darryl Reed, "Partnerships for Development: Four Models of Business Involvement," *Journal of Business Ethics* 90, supplement 1 (May 2009): 3–37.

Conventional Business Partnerships

Conventional business partnerships (CBPs) for development may seem unlikely. However, in the case of some public services, such as utilities, conventional business partnerships for development do emerge. The goal of conventional business partnerships for development is to promote efficiency in markets where competition does not exist. This assumes that, by nature, states are inefficient and that a business organization provides the best solution. In these partnerships, the role of business is to increase efficiency, while the role of government is to make sure that the benefits of increased efficiency are delivered to consumers. Government also monitors access to and affordability of the public service. CBPs do not have to prove a specific effort toward social responsibility but are commonly recognized and supported by the United Nations, World Bank, and other supraregional organizations. Specifically, these organizations have sought privatization through conventional business partnerships.

Privatization occurs when public operations are sold to private entities. Public-private partnerships count as partial privatization. Full privatization further reduces the public element of the equation. Social services often attract privatization interest, particularly those in developing nations since privatization provides a point of entry into new markets for investors. But long-standing public provision of goods and services carries deeply imbedded interests in keeping the goods and services public.[26]

The World Bank began advocating the privatization of public utilities in the early 1990s, and eventually this became a requirement for some countries seeking substantial loans. While there have been successes, water privatization efforts in Bolivia provide a stark reminder that CBPs may be fraught with difficulty. In 2005, protesters in El Alto, Bolivia, demanded that control of water be taken back from Suez, a French water company affiliated with the World

privatization occurs when public operations are sold to private entities

Bank who had taken over water service in 1997. In the span of three days, the president of Bolivia met the public's demand and canceled the deal. Only five years earlier, Bolivian citizens protested in Cochabamba against the control of water by the Bechtel Corporation. That protest was much more dramatic and violent, with the government declaring martial law. At this time, however, the reluctance to cancel the foreign control of water service was due to financial and political pressure. To cancel the deal would have made foreign investors hesitant to pursue investment opportunities in Bolivia. But Bolivian citizens were not hesitant to voice their grievances. Bolivians never came to the decision to privatize water. Like other poor nations, Bolivia was forced to privatize in order to receive much-needed aid from the World Bank. While many citizens did not agree with the principle of privatizing water service, their outrage came from the practical results that followed the change in service. Theoretically, privatization would bring investment and successful management to services traditionally run with little efficiency and much corruption. When implemented, however, investment translated to unaffordable, market-rate pricing and successful management translated to indifference to poor social conditions either introduced or exacerbated by privatization.[27] The World Bank eventually softened its position by becoming open to other options besides privatization, but the idea that poor governments need to increase their reliance on private agents for political and economic risks remains.

Corporate Social Responsibility Partnerships

Corporate social responsibility partnerships (CSRPs) are voluntary and business centered, where potential benefits alone compel individual businesses to enter into these partnerships. The success of CSRPs rests in the motivation causing corporate engagement. Such motivation may be philosophical or ethical, though it may be that pragmatic concerns are the major sources of motivation. For example, CSRPs provide resources for social initiatives such as job training and entrepreneurial development that contribute to a citizen's livelihood. While these initiatives benefit members of society, they also provide for a stronger workforce and economic contagion. Micro-credit programs are part of a CSRP's activity in resource provision, with the largest such partnership being the Global Microcredit Summit, a nonprofit organization dedicated to improving access to credit and financial self-sufficiency for the poorest people in the world.[28]

The micro-credit area of development activity began in Bangladesh. The initiative produced remarkable success, so much so that the prominent figures of the endeavor, Grameen Bank and founder Muhammad Yunus, received the Nobel Peace Prize in 2006. Micro-credit works toward moving large populations out of poverty through financial assistance. In late 1970s Bangladesh, Muhammad Yunus began efforts to make loans for unlikely candidates a possibility. His efforts included the establishment of Grameen Bank. In 2002, micro-credit in Bangladesh was made even more widely available through the World Bank's Financial Services for the Poorest. Grameen Bank remains an influential model for micro-credit institutions and partnerships all over the world. While micro-credit allows borrowers, the overwhelming majority of whom are women, to take action that directly improves their income, indirect improvements in quality of

life follow. Borrowers have access to better housing, food, sanitation, and education and are better able to take advantage of the improved options.[29]

Corporate Accountability Partnerships

The final two categories of partnerships for development take a distrust of corporate social responsibility models as a starting point for defining their framework. Corporate accountability partnerships (CAPs) spring from the idea that corporate social responsibility partnerships are neither accountable nor effective and are only really interested in public relations. As the name implies, corporate accountability partnerships focus on accountability and the setting of requirements and standards based on what society expects.

For CAPs to be successful, they must gain and direct public support, maximize the limited resources they tend to have, plan for the long-term, and convince public institutions of the necessity and importance of enforcing socially demanded standards. CAPs use legal and social means ranging from policy and certification initiatives to protests and activism. Certification CAPs focus mainly on labor rights and the environment and try to achieve answerability, enforcement, and universality. CAPs seek to achieve corporate recognition of standards deemed appropriate by society and utilize third-party audits and checks on the partnership.

A widely known certification CAP is the Fair Labor Association (FLA), which was organized after numerous media reports decrying child labor, poor working conditions, and low wages. Today, the FLA works to end sweatshop conditions for factory workers and organizes universities, social groups, and socially responsible organizations to protect workers' rights and insist on better working conditions all over the globe. The Russell Corporation is an example of a corporation being held accountable by the FLA. Russell was investigated for its decision to close Jerzees de Honduras, a large manufacturing facility. The company gave business reasons for the closure, but there were persistent allegations that Russell was closing the plant because of organized labor. In January of 2009, the FLA released a report on the closure of Jerzees de Honduras. The FLA report was based on information gathered by three independent investigators and concluded that "inappropriate and unacceptable actions were taken that raise serious questions about Russell Corporation's adherence to freedom of association and the protection of workers' rights." While the report acknowledged that the plant closure was primarily a business decision, the FLA asked for nine remedial steps to be taken by Russell. A few months later, the FLA completed its follow-up report and determined that a detailed

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Ela Bhatt, the founder of the Self-Employed Women's Association (SEWA), has won numerous awards for her efforts to end poverty among working women in India

remediation plan was still required. Russell participated in the development of the new remediation plan and agreed to comply.[30]

Social Economy Partnerships

Social economy partnerships (SEPs) pursue alternatives to conventional corporations and profit maximization. SEPs have a distinctly social purpose, use democratic governance, and cooperate with other social economy partnerships. Social economy organizations include nonprofits, community economic-development corporations, cooperatives, and cooperative development organizations.

The SEP philosophy emphasizes cooperation and assistance rather than traditional business logic. One function of these partnerships, to provide resources and support, appears most vividly in informal sectors of the urban poor. In these cases, SEPs bring people together for recycling and street vending, work that many other citizens will not perform. Entrepreneurship is viewed collectively and the group stays connected to social and political movements. SEPs in the informal sectors of the urban poor provide economic profits as well as social benefits that are usually reserved for those with full-time jobs in the formal sector.

"Cooperatives are organizations that seek a variety of benefits by approaching economics and entrepreneurship in social terms."

As another example, the Self Employed Women's Association (SEWA) is a trade union in India for poor, self-employed women. These women compose the majority of the labor force, but are part of the unorganized sector and not provided with the regular salaries and benefits. The SEWA organizes cooperative arrangements to help women find regular employment, increase their incomes, become literate, access better health care, obtain child care, and increase their financial assets. Through various cooperatives, women obtain insurance, get assistance in marketing their goods worldwide, participate in leadership training, and access significant loans and banking products. Without SEWA and its extended partnerships, these women would be destined for a life of poverty.[31]

Development Efforts of Countries

The four models of business involvement in development allow almost any firm the opportunity to engage in partnerships that improve health, education, economic, and other prospects for people around the world. In addition to corporate efforts, individual countries are also engaged in development efforts. The Center for Global Development produces a Commitment to Development Index (CDI) that ranks twenty-two developed nations by their contributions to and support of development in poorer, developing countries. While these contributions are the "right thing to do" and usually reflect national ideals and values, there are also benefits to global security and economic health. Countries included in the

Cooperative Banking Profit, investors, and distant corporate offices are not the ruling terms of the cooperative, or co-op. Instead of profit, which they often generate, cooperatives are organizations that seek a variety of benefits by approaching economics and entrepreneurship in social terms. Instead of investors, the co-op is developed by members who have one vote a piece in governance matters. The integration of business and social interests is made easier by the democratic governance of the co-op.

Equality in voting also means accountability and transparency are requisite. A co-op may have individual people as members or it may have small business and organization members. While cooperatives can be surprisingly successful financially, the traditional dynamics that motivate and relate owners, consumers, and workers are altered. Employer and employee are no longer binary. Wage-labor is not a satisfactory work life.

The cooperative began to emerge in the beginning of the nineteenth century in Europe. First, owners of a cotton mill in Scotland came together in order to extend the distribution of profits to employees. A few years later, a group of English textile workers called the Rochdale Pioneers established a cooperative in 1844. This cooperative joined together weavers and other artisans who were facing poverty, yet decided they should pool their meager resources to open a store selling food they could no longer afford. They opened their store with a small number of items, but quickly expanded their product range. Before long, the Rochdale Pioneers offered one of the best selections of food and household items in the area and was fully meeting its objective: *to form arrangements for the pecuniary benefit and the improvement of the social and domestic conditions of its members.* The concept spread to a variety of industries and countries.

Rabobank is a group of Dutch banks that has its origins in two rural cooperative banks founded in 1898. In 1972, the two banks merged to form Rabobank. Rabobank is now owned by more than 150 local banks and identified as one of the safest cooperative banks in the world. Rabobank's growth was made possible through the retention of its profits. It is owned and controlled by its members and works for its members. Rabobank has always had a commitment to corporate social responsibility and implements social responsibility in its lending practices. Accordingly, in making credit decisions, Rabobank assesses a company's strategy and track record for handling sensitive issues that call for corporate social responsibility. Rabobank views companies that lack social responsibility as a credit risk and also a risk to the co-op's reputation.

Issues for Rabobank Corporate Social Responsibility Assessment
Corruption
Poor working conditions
Exploitation of employees or benefitting from such exploitation (direct or indirect)
Inadmissible child labor
Discrimination
Environmental pollution
Depletion of scarce natural resources
Cruelty against animals
Violation of rights of indigenous peoples
Products and services involving health or safety risks for consumers

Sources: Kevin M. Blakely, "At Rabobank, It's All About the Customer," *The RMA Journal*, 91, no. 10 (July/August 2000): 36–43, accessed via ProQuest Database; Riccardo Lottie, Peter Mensing, and Davide Valenti, "A Cooperative Solution," *strategy+business* 43 (Summer 2006); Rabobank, "Lending Procedures," http://www.rabobank.com/content/about_us/corporate_social_responsibility/lending_procedures/, accessed August 13, 2009; David Thompson, "Cooperative Principles: Then and Now," http://www.cooperativegrocer.coop/articles/index.php?id=158, accessed August 17, 2009.

NASA

index are assessed based on governmental policy efforts in areas including aid, trade, investment, migration, the environment, security, and technology. Policy efforts are used as indicators partly to control for the varying sizes of economies among the countries ranked. The CDI 2008 ranks countries as follows: The Netherlands, Sweden, Norway, Denmark, Ireland, the United Kingdom, Finland, Australia, Austria, New Zealand, Canada, Spain, Germany, Portugal, Belgium, France, the United States, Switzerland, Greece, Italy, Japan, and South Korea. For the CDI, policies of rich countries, particularly the coherence of those policies, are important to development. The CDI also provides evidence that development involves more than monetary aid and that partnerships can provide greater benefits than individual partners can produce alone.[32]

GLOBAL REPORTING INITIATIVE

Regardless of the social responsibility activities a company pursues, it must also consider the best mechanisms for communicating its values and plans, highlighting successes, and gaining feedback for the future. In some cases, a firm may be a signatory to a set of standards, member of a particular association, or otherwise obligated to formally assess and document social responsibility outcomes. As stated earlier, companies that commit to the Global Compact are required to present an annual account of how they implement the ten principles and support the U.N.'s development goals. This document, entitled the Communication on Progress, may be part of the company's annual report, sustainability report, or some other social reporting mechanism.

"Regardless of the social responsibility activities a company pursues, it must also consider the best mechanisms for communicating its values and plans, highlighting successes, and gaining feedback for the future."

The Global Reporting Initiative (GRI) provides a framework for businesses and other organizations to assess their performance across an array of social responsibility indicators. Some firms use this as a self–audit, but others choose to formally share the audit results with stakeholders. One of the greatest benefits of the GRI is that it makes comparisons possible because it uses a globally applicable and well-vetted framework.

Established through collaboration between several nongovernmental organizations in 1997, the GRI emphasizes consensus and continuous improvement in developing and maintaining the GRI Sustainability Reporting Framework, which seeks to provide transparency

and accountability in sustainability reporting akin to that found in financial reporting. Diverse representatives contribute business, civil, academic, labor, and other professional perspectives in deciding which areas of sustainability are to be included in the framework and the appropriate measures to be used for determining performance in those areas. The framework is in perpetual draft form, with innovation in technologies and shifts in cultural attitudes accommodated by the GRI's continuous improvement approach. The third edition, or generation, of the GRI Guidelines was published in 2006.

Courtesy of CartoonStock.com

"You drive a Japanese car, drink French wine, eat Chinese food, own an American computer, buy Canadian lumber and vacation in Mexico. How can you be AGAINST free trade?!"

The GRI Sustainability Reporting Framework includes three categories of core indicators: economic, environmental, and social performance. The economic category examines an organization's interaction with the economic system in which it operates. The economic impact of the organization on stakeholders at large is measured by economic performance, market presence, and indirect economic impact indicators. While the indicators are defined separately, overlap exists.

The environmental category covers an organization's energy use, both direct use by the organization itself and indirect use by those who provide service to the organization, and pollution. The category assumes a link between energy consumption and emissions that contribute to climate change, and thus emphasizes efficient energy use and an increasing reliance on renewable energy sources over fossil fuel.

The society category examines the organization as it functions in relation to market structures and social institutions. Measures include the impact on local communities, bribery and corruption, and public policy making. The social category of core indicators is further divided into labor practice, human rights, product responsibility, and society. Quantitative or qualitative performance indicators are used to evaluate different aspects of each category.

Table 12.10 provides a sample of indicators for each category of the GRI framework. The human rights indicators consider the operation of an organization as it provides for basic human rights. Measures in this category observe incidents regarding human rights and provisions made for human rights in an organization's internal and external business relationships. The labor practices category is an extension of the human rights category that focuses specifically on the environment and practices to which workers are subject. Measures for this category examine workforce demographics, communications between the organization and its employees, and opportunities extended to workers for personal development. Finally, the product responsibility category focuses on the products of an organization as they affect

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consumers. Measures consider safety, product information, and privacy rights of customers. Indicators appear in pairs with one addressing the relevant processes of the organization and the second addressing the compliance of the organization.

In the first decade of the twenty-first century, thousands of reports were delivered to the GRI, with each company offering a self-rating in terms of how well it adhered to guidelines and indicator protocols in the previous year. MTR, a Hong Kong-based railways corporation, was recognized for its outstanding adherence to GRI standards in its ninth annual sustainability report. Several components of the MTR 2008 report illustrated the company's social responsibility efforts, including a timeline of its activities and a self-assessment of the firm's annual progress on meeting social responsibility, sustainability, and stakeholder goals. MTR's "maturity matrix" is shown in Figure 12.6. Each item in the matrix is scored from 1 (lowest) to 4 (highest), which means that by 2008, MTR was demonstrating excellent progress on its vision for strategic social responsibility.

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GRI has also noted the exemplary effort of Banarra, an Australian-based firm providing consulting and assurance services in the area of sustainability. The company centers its advice on results obtained from a proprietary assessment protocol, named the Banarra Assurance Methodology (BAM), which utilizes survey instruments and more traditional audit tools. In keeping with its consulting approach, Banarra recently solicited employee feedback on the quality of its management practices. More than 300 organizations across Australia participated in the survey, so it was useful for comparative purposes. The results were discussed in Banarra's most recent report to the GRI and are located in Figure 12.7. It is important to note that in keeping with the true spirit of self-assessment, Banarra reported results that reflected both strengths and weaknesses in management practices. For example, employees were very pleased with management's ethical standards, social and environmental responsibility, and innovation. In contrast, employees noted areas for improvement, including role clarity, well-being, and competitive position.

SUMMARY

In this chapter, we discussed a variety of social responsibility issues and stakeholders from a global perspective. The expanding global marketplace requires that executives and managers develop the ability to conduct business effectively and socially responsibly in different regions of the world. The movement of people across cities and continents means that ideas, values, traditions, languages, and customs have also migrated and that global employees need many

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skills. Cultural intelligence is the ability to interpret and adapt successfully to different national, organizational, and professional cultures. The development and use of cultural intelligence involves three components: cognitive, motivational, and behavioral. Cultural intelligence is desired of all employees, but is mandatory for those who work in different countries, manage diverse groups, and have responsibilities that require them to interpret unfamiliar behaviors and situations.

Cultural intelligence is critical for dealing effectively with stakeholders, including customers, investors and shareholders, employees, suppliers, governments, communities, and others. Stakeholders in other countries and cultures bring unique insights and attitudes to bear on the business relationship, including differences in economic, legal, ethical, and philanthropic expectations. We delved into a few trends related to stakeholders in the global economy, including the Caux Round Table Principles for Business, fair trade, employee engagement, and others.

The reflexive nature of the global economy means that the success of a particular company is a function of many factors, including the extent to which the firm's home country is comprised of trust-based institutions. Some nations have well-developed systems for ensuring economic, legal, and ethical standards in business activities. We explored the concept of responsible competitiveness and its effects on a national economy. In other cases, corporations are interested in a particular market, but know that fundamental institutions and standards are sorely underdeveloped and negatively affect market potential. The four models of business involvement in development allow almost any firm the opportunity to engage in partnerships that improve health, education, economic, and other prospects for people around the world. In addition to corporate efforts, individual countries are also engaged in development efforts.

Finally, the Global Reporting Initiative (GRI) provides a framework for businesses and other organizations to assess their performance across an array of social responsibility indicators. Some firms use this as a self-audit, but others choose to formally share the audit results with stakeholders. One of the greatest benefits of the GRI is that it makes comparisons possible because it uses a globally applicable and well-vetted framework.

RESPONSIBLE BUSINESS DEBATE

Technology and the Africa Rice Center

ISSUE: Should genetic modification be used to further economic development?

In Africa, the rice industry is represented by the Africa Rice Center, formerly known as West Africa Rice Development Association (WARDA). The mission of the center is to contribute to poverty alleviation and food security in Africa through research, development, and partnership activities aimed at increasing the productivity and profitability of the rice sector in ways that ensure the sustainability of the farming environment. The association started in 1970 and now boasts twenty-two African nations as members and partners, along with many international organizations, including the United Nations, European Commission, and the World Health Organization.

In carrying out its mission, the center recognizes three key barriers: (1) low productivity and sustainability of rice, (2) poor quality of the marketed product, and (3) unfavorable market and policy environment. To overcome these issues, the center has established a strategic plan, including the use of research and development protocols to bridge genetic diversity and produce new variations of rice and disease-resistant crops. The center's current technologies allow for the introduction of NERICA (New Rice for Africa) rice varieties.

NERICA was created by crossing *O. glaberrima* and *O. sativa*, two species of rice that demonstrate different strengths and weaknesses when grown in Africa. Rice farmers had long hoped to combine the best traits of the two species, but efforts had been fruitless. In the early 1990s, WARDA breeders turned to biotechnology in an attempt to overcome the infertility problem. Because the different species do not naturally interbreed, a technique called embryo-rescue was used to ensure that crosses between the two varieties would survive and grow to maturity. By 2000, more than 20,000 farmers were growing NERICA varieties in Africa.

To many, NERICA is central to solving Africa's severe poverty and nutrition problems. To others, NERICA is the latest attempt by government and business to promote a solution that is not fully tested. Critics claim that NERICA requires more fertilizer and care and fails to adapt well to the soil and techniques that small farmers have used for generations. While proponents tout the modern revolution in rice, others are waiting for the empirical evidence that NERICA is good for development.

There Are Two Sides to Every Issue:

1. Defend the belief that NERICA is an appropriate use of biotechnology and genetic modification. What are the benefits of these techniques?
2. Defend the belief that scientists should not be using genetic modification to create new species of any food, including NERICA. What are the risks associated with these techniques?

Sources: Africa Rice Center, "About Us," http://www.warda.org/warda/aboutus.asp, accessed August 17, 2009; "Nerica: Another Trap for Small Farmers in Africa," http://www.grain.org/briefings/?id=215, accessed August 15, 2009; West Africa Rice Development Association, "NERICA: Rice for Life," http://www.warda.cgiar.org/publications/NERICA8.pdf, accessed August 16, 2009.

KEY TERMS

cultural intelligence (p. 444)
employee engagement (p. 452)
fair trade (p. 455)
responsible competitiveness (p. 458)
development (p. 461)
privatization (p. 465)

DISCUSSION QUESTIONS

1. Define *cultural intelligence* in your own terms. Compare your definition with the definition used in this chapter.
2. How are stakeholder relationships in a global context different from those in a domestic context? In what ways are they alike?
3. What is the likelihood that corporate leaders can agree on a global set of social responsibility standards? What evidence do you have?
4. How can organizations create stronger engagement with employees? What would be the effects on social responsibility? How would social responsibility affect engagement?
5. Define *fair trade* in your own terms. In what ways should consumers consider fair trade issues when making purchases and investments?
6. What is *national competitiveness*? Describe the ways in which the three drivers of the Responsibility Competitiveness Index (RCI) affect business and vice versa.

7. Review the Millennium Development Goals in Table 12.8. In what ways are these goals and issues related to a successful global economy? What benefits and/or challenges do they present to multinational corporations?

8. Review the Global Reporting Initiative performance indicators in Table 12.10. How would a company measure its progress in these areas? Propose both quantitative and qualitative measures.

EXPERIENTIAL EXERCISE

Choose two multinational companies, each based in a different home country, and visit their respective websites. Peruse these sites for information that is directed at three company stakeholders: employees, customers, and the community. Make a list of the types of information that are on the site and indicate how the information might be used and perceived by these three stakeholder groups. What differences and similarities did you find between the two companies? How are the differences attributable to cultural nuances?

WHAT WOULD YOU DO?

Jaime and Catherine looked at each other. Each was thinking, "How do we do this?" Neither offered any immediate suggestions. Both were mid-level executives with a multinational corporation that manufactured clothing, handbags, and accessories in developing countries, including Guatemala and Honduras. The company is a member of the Fair Labor Association and takes pride in its commitment to a safe, healthy, and equitable work environment for all employees. Jaime, a native of Mexico, had professional experience in Peru, Chile, and Mexico. Catherine, a native of the United States, spoke fluent Spanish and was being groomed to take international assignments. Two weeks ago, the Vice President of Latin American Operations called Jaime and Catherine, asking them to take on an internal consulting project.

The vice president was concerned about rumors surrounding the company's largest manufacturing site in Honduras. This site employs more than 1,000 people, the majority of whom work in low-skilled manufacturing roles. Although no employee has come forward, or used the firm's ethics hotline, the site's regional manager (RM) has been concerned about management practices and workplace conditions. Each time the RM visited the site, he sensed that he was not experiencing the daily "reality" of the manufacturing site. So far, he has had little proof but has decided to share his concerns with other executives. Specifically, he has been worried about (1) possible intimidation of union members and leaders, (2) discriminatory management tactics, and (3) forced overtime that is not properly compensated.

Two weeks later, Jaime and Catherine arrive at the site, tasked with determining whether management practices and workplace conditions are compatible with corporate standards and FLA principles. First, they need to develop a plan for gathering information from employees, including those who are either scared of retaliation or generally mistrusting of corporate management. What would you do?

CASE 1

Monsanto Attempts to Balance Stakeholder Interests

Think Monsanto, and you probably do not think about small farms. Rather, the phrase *genetically modified* likely comes to mind. The Monsanto Company is the world's largest seed company, with sales of over $8.6 billion. It specializes in biotechnology, or the genetic manipulation of organisms. Monsanto scientists have spent the last few decades modifying crops, often by inserting new genes or adapting existing genes within plant seeds, to better meet certain aims such as higher yield or insect resistance. Monsanto produces plants that can survive weeks of drought, ward off weeds, and kill invasive insects. Monsanto's genetically modified (GM) seeds have increased the quantity and availability of crops, helping farmers worldwide increase food production and revenues.

Today, 90 percent of the world's GM seeds are sold by Monsanto or by companies that use Monsanto genes. Monsanto also holds 70–100 percent market share on certain crops. Yet Monsanto has met with its share of criticism from sources as diverse as governments, farmers, activists, and advocacy groups. Monsanto supporters say it is creating solutions to world hunger by generating higher crop yields and hardier plants. Critics accuse the multinational giant of trying to take over the world's food supply, and destroying biodiversity. Since biotechnology is relatively new, they also express concerns about the possibility of negative health and environmental effects from biotech food. However, such criticisms have not deterred Monsanto from becoming one of the world's most successful companies.

The following analysis first looks at the history of Monsanto as it progressed from a chemical company to an organization focused on biotechnology, and then examines Monsanto's current focus on developing genetically modified seeds, including stakeholder concerns regarding the safety and environmental effects of these seeds. The controversy surrounding the drug Posilac is also examined. Next, some ethical concerns, including organizational misconduct and patent issues, are discussed. The analysis also looks at some of Monsanto's corporate responsibility initiatives. It concludes by examining the challenges and opportunities Monsanto may face in the future.

HISTORY: FROM CHEMICALS TO FOOD

The original Monsanto was very different from the current company. It was started by John F. Queeny in 1901 in St. Louis and was named after his wife, Olga Monsanto Queeny. The company started making artificial food additives. Its first product was the artificial sweetener saccharine, which it sold to Coca-Cola. Monsanto followed by selling Coca-Cola caffeine extract and vanillin, an artificial vanilla flavoring. At the start of WWI, company leaders realized the growth opportunities in the industrial chemicals industry and renamed the company The Monsanto Chemical Company. The company began specializing in plastics,

Jennifer Sawayda, under the direction of O.C. Ferrell and Jennifer Jackson, prepared this case for classroom discussion, rather than to illustrate either effective or ineffective handling of an administrative, ethical, or legal decision by management. All sources used for this case were obtained through publicly available material.

its own agricultural chemicals, and synthetic rubbers.

Due to its expanding product lines, Monsanto was renamed again the Monsanto Company in 1964. By this time, Monsanto was producing such diverse products as petroleum, fibers, and packaging. A couple years later, Monsanto created its first Roundup herbicide, a successful product that would propel the company even more into the public's consciousness.

However, during the 1970s, Monsanto hit a major legal snare. The company had produced a chemical known as Agent Orange that was used during the Vietnam War to quickly deforest the thick Vietnamese jungles. Agent Orange contained dioxin, a chemical that caused a legal nightmare for Monsanto. Dioxin was found to be extremely carcinogenic, and in 1979, a lawsuit was filed against Monsanto on behalf of hundreds of veterans who claimed they were harmed by the chemical. Monsanto and several other manufacturers agreed to settle for $180 million. The repercussions of dioxin would continue to plague the company for decades.

In 1981, Monsanto leaders determined that biotechnology would be the company's new strategic focus. The quest for biotechnology was on, and in 1994 Monsanto introduced the first biotechnology product to win regulatory approval. Soon the company was selling soybean, cotton, and canola seeds that were engineered to be tolerant to Monsanto's Roundup Ready herbicide. Many other herbicides killed the good plants as well as the bad ones. Roundup Ready seeds allowed farmers to use the herbicide to eliminate weeds while sparing the crop.

In 1997, Monsanto spun off its chemical business as Solutia, and in 2000 the company entered into a merger and changed its name to the Pharmacia Corporation. Two years later, a new Monsanto, focused entirely on agriculture, broke off from Pharmacia, and the companies became two separate legal entities. The company before 2000 is often referred to as "old Monsanto," while today's company is known as "new Monsanto."

The emergence of new Monsanto was tainted by some disturbing news about the company's conduct. It was revealed that Monsanto had been covering up decades of environmental pollution. For nearly forty years, the Monsanto Company had released toxic waste into a creek in an Alabama town called Anniston. It had also disposed of polychlorinated biphenyls (PCBs), a highly toxic chemical, in open-pit landfills in the area. The results were catastrophic. Fish from the creek were deformed, and the population had elevated PCB levels that astounded environmental health experts. A paper trail showed that Monsanto leaders had known about the pollution since the 1960s, but had not stopped production. Once the cover-up was discovered, thousands of plaintiffs from the city filed a lawsuit against the company. In 2003, Monsanto and Solutia agreed to pay a settlement of $700 million to more than 20,000 Anniston residents. However, no amount of money will give people back their health or the health of their environment.

When current CEO Hugh Grant took over in 2003, scandals and stakeholder uncertainty over Monsanto's GM products had tarnished the company's reputation. The price of Monsanto's stock had fallen by almost 50 percent, down to $8 a share. The company had lost $1.7 billion the previous year. Grant knew the company was fragile; yet through a strategic focus on GM foods, the company has recovered and is now prospering.

In spite of their controversial nature, GM foods have become popular both in developed and developing countries. Monsanto became so successful with its GM seeds that it acquired Seminis, Inc., a leader in the fruit and vegetable seed industry. The acquisition transformed Monsanto into a global leader in the seed industry. Today, Monsanto employs nearly 20,000 people in 160 countries. It has been recognized as the top employer in Argentina, Mexico, India, and, for eight times in a row, Brazil.

THE SEEDS OF CHANGE: MONSANTO'S EMPHASIS ON BIOTECHNOLOGY

While the original Monsanto made a name for itself through the manufacturing of chemicals, new Monsanto took quite a different turn. It switched its emphasis from chemicals to food. Today's Monsanto owes its $8.6 billion in sales to biotechnology, specifically to its sales of genetically modified (GM) plant seeds. These seeds have revolutionized the agriculture industry.

Throughout history, weeds, insects, and drought have been the bane of the farmer's existence. In the past century, herbicides and pesticides were invented to ward off pests. Yet applying these chemicals to an entire crop was both costly and time-consuming. Then Monsanto scientists, through their work in biotechnology, were able to implant seeds with genes that make the plants themselves kill bugs. They also created seeds containing the herbicide Roundup Ready, an herbicide that kills weeds but spares the crops.

The broad introduction of these GM seeds in the 1990s unleashed a stream of criticism. Monsanto was nicknamed "Mutanto," and GM produce was called "Frankenfood." Critics believed that influencing the gene pools of plants we eat could result in negative health consequences, a fear that remains to this day. Others worried about the health effects on beneficial insects and plants. Could pollinating GM plants have an effect on nearby insects and non-GM plants? CEO Hugh Grant decided to curtail the tide of criticism by focusing biotechnology on products that would not be directly placed on the dinner plate, but instead on seeds that produce goods like animal feed and corn syrup. In this way, Grant was able to reduce some of the opposition. Today, the company invests largely in four crops: corn, cotton, soybeans, and canola.

Thus far, the dire predictions of critics have not occurred. Monsanto owes approximately 60 percent of its revenue to its work in GM seeds, and today, more than half of U.S. crops, including most soybeans and 70 percent of corn, are genetically modified. Approximately 282 million acres worldwide are now devoted to biotech crops, and the fastest growth is in developing countries. However, critics are wary that long-term effects still might be discovered.

Farmers who purchase GM seeds can now grow more crops on less land and with less left to chance. GM crops have saved farmers billions by preventing loss and increasing crop yields. For example, in 1970 the average corn harvest yielded approximately 70 bushels an acre. With the introduction of biotech crops, the average corn harvest has increased to roughly 150 bushels an acre. Monsanto predicts even higher yields in the future, possibly up to 300 bushels an acre by 2030. "As agricultural productivity increases, farmers are able to produce more food, feed, fuel, and fiber on the same amount of land, helping to ensure that agriculture can meet humanity's needs in the future," said Monsanto CEO Hugh Grant concerning Monsanto technology.

As a result of higher yields, the revenues of farmers in developing countries have increased dramatically. According to company statistics, the cotton yield of Indian farmers rose by 50 percent, doubling their income in one year. Additionally, the company claims that its insect-protected corn has raised the income level in the Philippines to above poverty level. Critics argue that these numbers are inflated; they say the cost of GM seeds is dramatically higher than that of traditional seeds, and therefore they actually reduce farmers' take-home profits.

Monsanto's GM seeds have not been accepted everywhere. Attempts to introduce them into Europe have been met with extreme consumer backlash. Consumers have gone so far as to destroy fields of GM crops and arrange sit-ins. Greenpeace has fought Monsanto for years, especially in the company's efforts to promote GM crops in developing countries.

This animosity toward Monsanto's products is generated by two main concerns: worries about the safety of GM food, and concerns about the environmental effects.

Concerns About the Safety of GM Food

Of great concern for many stakeholders are the moral and safety implications of GM food. Many skeptics see biotech crops as unnatural, with the Monsanto scientist essentially "playing God" by controlling what goes into the seed. Also, because GM crops are relatively new, critics maintain that the health implications of biotech food may not be known for years to come.

They also contend that effective standards have not been created to determine the safety of biotech crops. Some geneticists believe the splicing of these genes into seeds could create small changes that might negatively impact the health of humans and animals that eat them. Also, even though the FDA has declared biotech crops safe, critics say they have not been around long enough to gauge their long-term effects.

One major health concern is the allergenicity of GM products. Critics fear that a lack of appropriate regulation could allow allergens to creep into the products. Another concern is toxicity, particularly considering that many Monsanto seeds are equipped with a gene to allow them to produce their own Roundup Ready herbicide. Could ingesting this herbicide, even in small amounts, cause detrimental effects on consumers? Some stakeholders say yes, and point to statistics on glyphosate, Roundup's chief ingredient, for support. According to an ecology center fact sheet, glyphosate exposure is the third most commonly reported illness among California agriculture workers, and glyphosate residues can last for a year. Yet the EPA lists glyphosate as having a low skin and oral toxicity, and a study from the New York Medical College states that Roundup does not create a health risk for humans.

Despite consumer concerns, the FDA has proclaimed that GM food is safe to consume. As a result, it also has determined that Americans do not need to know when they are consuming GM products. Thus, this information is not placed on labels in the United States, although other countries, most notably Great Britain and the European Union, do require GM food products to state this fact in their labeling.

Bovine Growth Hormone Concerns

Monsanto has also come under scrutiny for its synthetic hormone Posilac, the brand name of a Monsanto drug that contains recombinant bovine growth hormone (rBST). This hormone is a supplement to the naturally occurring hormone BST in cows. Posilac causes cows to produce more milk, a boon to dairy farmers but a cause of concern to many stakeholders who fear that Posilac may cause health problems in cows and in the humans who drink their milk. After numerous tests, the FDA has found that milk from Posilac-treated cows is no different in terms of safety than milk from rBST-free cows. Yet these assurances have done little to alleviate stakeholder fears, especially since some studies maintain that rBST increases health problems in cows.

Public outcry from concerned consumers has become so loud that many grocery stores and restaurants have stopped purchasing rBST-treated milk. Starbucks, Kroger, Ben & Jerry's, and even Wal-Mart have responded to consumer demand by only using or selling rBST-free milk, which has put a damper on Monsanto's Posilac profits.

In the past few years, certain groups, including Monsanto, have fought back against the popularity of rBST-free milk. They maintain that consumers are being misled by implications that rBST-free milk is safer than rBST-treated milk. The grassroots organization AFACT, short for American Farmers for the Advancement and Conservation of Technology, has pressured the government to pass laws forbidding the use of labels that state

that milk is free of rBST. Their efforts have been met with some support from legislators. In 2006, Pennsylvania senator and agriculture secretary Dennis Wolff tried to ban milk that was labeled as rBST-free, but stakeholder outrage prevented the law from being enforced. Instead, tighter restrictions on labels have been initiated. All rBST-free milk must now contain the following FDA claim: "No significant difference has been shown between milk derived from rBST-treated and non-rBST-treated cows."

Although Monsanto denies influencing AFACT in any way, many have accused the company of secretly governing the organization. Lori Hoag, spokeswoman for the dairy unit of Monsanto, admitted that the company did provide funds to AFACT, but says that the company has nothing to do with the governing decisions AFACT makes. In fact, on its website, Monsanto stresses that it has no problem with milk labels listed as rBST-free as long as the label contains the claim of the FDA. However, critics are still accusing Monsanto of being behind AFACT in what they say is an attempt to curtail the unpopularity of Posilac.

Concerns About Environmental Effects of Monsanto Products

Studies have supported the premise that Roundup herbicide, which is used in conjunction with the hearty GMO seeds called Roundup Ready, can be harmful to birds, insects, and particularly amphibians. Such studies have revealed that small concentrations of Roundup may be deadly to tadpoles, which is a major concern, as frog and toad species are rapidly disappearing around the globe. A test using Roundup, performed by University of Pittsburgh assistant professor of biological sciences Rick Relyea and his doctoral students, killed 71 percent of tadpoles in outdoor tanks at one-third the maximum concentrations found in nature. Relyea also maintains that soil does not lessen the herbicide's negative effects. Roundup was never approved for water use; however, Relyea and others fear that water runoff may carry Roundup into water sources.

Another concern with GM seeds in general is the threat of environmental contamination. Bumblebees, insects, and wind can carry a crop's seeds to other areas, sometimes to fields containing non-GM crops. These seeds and pollens might then mix in with the farmer's crops. In the past, organic farmers have complained that genetically modified seeds from nearby farms have "contaminated" their crops. This environmental contamination could pose a serious threat. Some scientists fear that GM seeds that are spread to native plants may cause those plants to adopt the GM trait, thus creating new genetic variations of those plants that could negatively influence (through genetic advantages) the surrounding ecosystem. Andrew Kimbrell, director of the Centre for Technology Assessment in Washington, predicts that "biological pollution will be the environmental nightmare of the twenty-first century."

Monsanto has not been silent on these issues and has acted to address some of these concerns. The company maintains that the environmental impact of everything it creates has been studied by the EPA and approved. Monsanto officials claim that glyphosate in Roundup Ready does not usually end up in ground water, and cites a study which revealed that less than 1 percent of glyphosate contaminates ground water through runoff. The company also claims that when it does contaminate ground water, it is soluble and will not have much effect on aquatic species. This conflicts with Relyea's study, leaving stakeholders unsure about what to believe.

Crop Resistance to Pesticides and Herbicides Another environmental problem that has emerged is the possibility of weed and insect resistance to the herbicides and pesticides on Monsanto crops. Critics fear that continual use of the chemicals could result in "super weeds" and "super bugs," much like overuse of antibiotics in humans has resulted

in drug-resistant bacteria. The company's Roundup Ready line, in particular, has come under attack. Monsanto points out, and rightly so, that Roundup herbicide has been used for thirty years, largely without resistance issues. However, GMO plants labeled Roundup Ready are genetically engineered to withstand large doses of the herbicide Roundup. As Roundup is being used more frequently and exclusively because of the Roundup Ready plants' tolerance, even weeds have started developing a resistance to this popular herbicide. As early as 2003, significant numbers of Roundup resistant weeds had been found in the United States and Australia.

To combat "super bugs," the government requires farmers using Monsanto's GMO products to create "refuges," in which they plant 20 percent of their fields with a non-genetically modified crop. The theory is that this allows nonresistant bugs to mate with those that are resistant, preventing a new race of super bugs. To prevent resistance to the Roundup herbicide, farmers are supposed to vary herbicide use and practice crop rotations. However, since Roundup is so easy to use, particularly in conjunction with Roundup Ready seeds, many farmers do not take the time to institute these preventative measures. When they do rotate their crops, some will rotate one Roundup Ready crop with another type of Roundup Ready crop, which does little to solve the problem. This is of particular concern in Latin America, Africa, and Asia where farmers may not be as informed of the risks of herbicide and pesticide overuse.

Monsanto has taken action to deter weed herbicide resistance. In 2009, the company agreed to offer rebates, up to $12/acre, to farmers in thirteen states who use combinations of herbicides on their crops. Monsanto is offering rebates on six of the products, only one of which is a Monsanto product. The company is taking a proactive stance to show that it cares about preventing resistance; however, this does little to stem what might become a global problem.

DEALING WITH ORGANIZATIONAL ETHICAL ISSUES

In addition to concerns over the safety of GM seeds and environmental issues, Monsanto has had to deal with concerns about organizational conduct. Organizations face significant risks from strategies and also from employees striving for high performance standards. Such pressure sometimes encourages employees to engage in illegal or unethical conduct. All firms have these concerns, and in the case of Monsanto, bribes and patents have resulted in legal, ethical, and reputational consequences.

Bribery Issues

Bribery presents a dilemma to multinational corporations because different countries have different perspectives on it. While it is illegal in the United States, other countries allow it. Monsanto faced such a problem with Indonesia, and its actions resulted in the company being fined a large sum.

In 2002, a senior manager at Monsanto instructed an Indonesian consulting firm to pay a bribe of $50,000 to a high-level official in the country's environment ministry. The bribe apparently was for the company to disguise an invoice, which showed that Monsanto was facing opposition from farmers and activists in regard to the introduction of GM cotton in Indonesia.

It was later revealed that such bribery was not an isolated event; the company had paid off many officials between 1997 and 2002. Monsanto first became aware of the problem after discovering some irregularities at their Indonesian subsidiary in 2001. As a result, the company launched an internal investigation and reported the bribery to the U.S. Department of Justice and the Securities and Exchange Commission (SEC).

Monsanto accepted full responsibility for its employees' behavior and agreed to pay $1 million to the Department of Justice and

$500,000 to the SEC. It also agreed to three years of close monitoring of its activities by American authorities. The incident showed that although Monsanto has not been immune to scandals, it has been willing to work with authorities to correct them.

Patent Issues

Like most businesses, Monsanto wants to patent its products. A problem arises, however, when it comes to patenting seeds. As bioengineered creations of the Monsanto Company, Monsanto's seeds are protected under patent law. Under the terms of the patent, farmers using Monsanto seeds are not allowed to harvest seeds from the plants for use in upcoming seasons. Instead, they must purchase new Monsanto seeds each season. By issuing new seeds each year, Monsanto ensures it will secure a profit as well as maintain control over its property.

Unfortunately, this is a new concept for most farmers. Throughout agricultural history, farmers have collected and saved seeds from previous harvests to plant the following year's crops. Critics argue that requiring farmers to suddenly purchase new seeds year after year puts an undue financial burden on them and allows Monsanto too much power. However, the law protects Monsanto's right to have exclusive control over its creations, and farmers must abide by these laws. When they are found guilty of using Monsanto seeds from previous seasons, either deliberately or out of ignorance, they are often fined.

Since it is fairly easy for farmers to violate the patent, Monsanto has found it necessary to employ investigators from law firms to investigate suspected violations. The resulting investigations are a source of contention between Monsanto and accused farmers. According to Monsanto, investigators approach the farmers suspected of patent infringement and ask them some questions. The investigators must practice transparency with the farmers and tell them why they are there and who they represent. If after the initial interview is completed, suspicions still exist, the investigators may pull the farmer's records (after assuring the farmer they will do so in a respectful manner). Sometimes they bring in a sampling team, with the farmer's permission, to test the farmer's fields. If found guilty, the farmer often has to pay Monsanto. According to Monsanto, in the past ten years, it has only filed suit against farmers 120 times, and only eight of these suits have proceeded to trial. Each time the ruling was in Monsanto's favor.

Some farmers, on the other hand, tell a different story about Monsanto and its seed investigators, calling the investigators the "seed police" and even referring to them with such harsh words as "Gestapo" or "mafia." One controversial suit was a case involving storeowner Gary Rinehart from Missouri. As Rinehart relates it, a Monsanto seed investigator entered his store and accused him of saving seeds from previous seasons. The investigator then threatened him with a suit if he did not settle. The company filed suit but eventually found it had the wrong man. Monsanto dropped the suit against him but never apologized. Rinehart also claims the investigators were inspecting other farmers in the area. Other complaints against investigators include similar acts of intimidation, with some farmers even going so far as to accuse investigators of following them and secretly videotaping them.

Such accusations are disturbing, but Monsanto has countered them with its own stories. It claims that Rinehart refused to cooperate and became irate, finally throwing the investigators out of his store. Monsanto filed suit, but eventually found that it was Rinehart's nephew who was transporting the saved seed. The company dropped the suit against Rinehart, and the nephew eventually agreed to settle. According to their website, the nephew still has not paid the settlement.

In order to prevent so many instances of patent infringement, some have suggested that Monsanto make use of GURT, or gene use

restriction technology. This technology would let Monsanto create "sterile" seeds. Dubbed by stakeholders as "Terminator seeds," these seeds have several risks and have spurred much controversy among the public, including a concern that these sterile seeds might somehow get transported to other plants, which could create sterile plants that would reduce genetic diversity. In 1999, Monsanto pledged not to commercialize sterile seed technology in food crops. The company has promised that it will only do so in the future after consulting with experts, stakeholders, and relevant NGOs.

CORPORATE RESPONSIBILITY AT MONSANTO

It is a common expectation today for multinational companies to take actions to advance the interests and well-being of the people in the countries in which they do business. Monsanto is no exception. The company has given millions of dollars in programs to help improve the communities in developing countries. In fact, *Corporate Responsibility Magazine* ranked Monsanto number 20 on its 100 Best Corporate Citizens list of 2009, a jump from number 88 the previous year.

In addition, as an agricultural company, Monsanto must address the grim reality facing the world in the future: The world's population is increasing at a fast rate, and the amount of available land and water for agriculture is decreasing. Some experts believe that our planet will have to produce more food in the next 50 years to feed the world's population than it has grown in the past 10,000 years, requiring us to double our food output. As a multinational corporation dedicated to agriculture, Monsanto is expected to address these problems. In fiscal year 2008, the company expended $980 million for researching new farmer tools. The company has also developed a three-tiered commitment policy: (1) produce more yield in crops, (2) conserve more resources, and (3) improve the lives of farmers. The company hopes to achieve these goals by taking some initiatives in sustainable agriculture.

Sustainable Agriculture

Agriculture intersects the toughest challenges we all face on the planet. Together, we must meet the needs for increased food, fiber and energy while protecting the environment. In short, the world needs to produce more and conserve smarter.

This quote by Monsanto CEO Hugh Grant demonstrates the challenges agriculture is facing today, along with Monsanto's goals to meet these challenges head-on. For instance, Monsanto is quick to point out that its biotech products added more than 100 million tons to worldwide agriculture production between 1996 and 2006, which they estimate has increased farmer's incomes by $33.8 billion. Monsanto has also created partnerships between nonprofit organizations across the world to enrich the lives of farmers in developing countries. Two regions on which Monsanto is focusing are India and Africa.

The need for better agriculture is apparent in India, where the population is estimated to hit 1.3 billion by 2017. Biotech crops have helped to improve the size of yields in India, allowing some biotech farmers to increase their yields by 50 percent. Monsanto estimates that cotton farmers in India using biotech crops earn approximately $176 more in revenues per acre than their non-biotech contemporaries. In February 2009, Monsanto announced that it would launch Project SHARE, a sustainable yield initiative done in conjunction with the nonprofit Indian Society of Agribusiness, to try and improve the lives of 10,000 cotton farmers in 1,100 villages.

In Africa, Monsanto has helped many farmers prosper and thrive through difficult periods. For example, in 2007 the government of Malawi provided farmers with vouchers

worth about $3 each, which farmers could exchange for Monsanto seeds. Some of the farmers using these seeds saw their crop yields increase from a few bags to hundreds. Monsanto has also provided help to Project Malawi, a program to improve food security and health care to thousands of Malawians. Monsanto has provided the program with hybrid maize seed and has sent experts from the company to provide training for farmers in how to use the seed. Additionally, the large seed company has agreed to donate 240 tons of hybrid corn seed through 2010 to villages in Malawi, Tanzania, and Kenya. The goal of Monsanto is to improve farmers' lives in a way that will help them become self-sufficient.

Not all view Monsanto's presence in Africa as an outreach in corporate responsibility. Some see it as another way for Monsanto to improve the bottom line. Critics see the company as trying to take control of African agriculture and destroy African agricultural practices that have lasted for thousands of years. Yet, despite this criticism, there is no denying that Monsanto has positively affected African farmers' lives, along with increasing the company's profits for its shareholders. As CEO Hugh Grant writes, "This initiative isn't simply altruistic; we see it as a unique business proposition that rewards farmers and shareowners."

Charitable Giving

In 1964, the Monsanto Company established the Monsanto Fund. Much of the Monsanto Fund's contributions fund the company's projects in Africa. In 2006, the Fund awarded a $15 million gift to the Donald Danforth Plant Science Center, which will help to support crop research in Africa. Other projects of the Fund include the "Healthy Children, Healthy Future" program, which seeks to reduce diseases in Brazilian children through education on good health and basic hygiene, and the funding of the Monsanto Insectarium at the St. Louis Zoo.

The Monsanto Company also supports youth programs. In the first decade of the twenty-first century, the company donated nearly $1.5 million in scholarships to students who want to pursue agriculture-related degrees. The company also supports Future Farmers of America, the 4-H program, and the program Farm Safety 4 Just Kids, a program which helps teach rural children about safety while working on farms.

THE FUTURE OF MONSANTO

Monsanto faces some challenges that it needs to address, including lingering concerns over the safety and the environmental impact of its products. The company needs to enforce its code of ethics effectively to avoid organizational misconduct (like bribery) in the future. Monsanto also may be facing increased competition from other companies. The seed company Pioneer Hi-Bred International Inc. is using pricing strategies and seed sampling to attract price-conscious customers. Additionally, lower grain prices may convince farmers to switch from Monsanto to less expensive brands.

Yet, despite the onslaught of criticism from Monsanto detractors and the challenge of increased competition from other companies, Monsanto has numerous opportunities to thrive in the future. The company is currently working on new innovations that could increase its competitive edge as well as provide enormous benefits to farmers worldwide. In 2009, the company announced that it had finished regulatory submissions for the planet's first biotech drought-tolerant corn. This corn could be a major boon to farmers in areas where drought is prevalent. Monsanto is also working with the African Agriculture Technology Foundation to bring drought-resistant technology to Africa (without having them pay royalties).

Although Monsanto has made ethical errors in the past, it is trying to portray itself as a socially responsible company dedicated to improving agriculture. As noted, the

company still has some problems. The predictions from Monsanto critics about biotech food have not yet come true, but that has not totally eradicated the fears of stakeholders. With the increasing popularity of organic food and staunch criticism from opponents, Monsanto will need to continue working with stakeholders to promote its technological innovations and to eliminate fears concerning its industry.

QUESTIONS

1. Does Monsanto maintain an ethical culture that can effectively respond to various stakeholders?
2. Compare the benefits of growing GMO seeds for crops with the potential negative consequences of using them.
3. How should Monsanto manage the potential harm to plant and animal life from using products such as Roundup?

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