BUSINESS AND SOCIETY

A Strategic Approach to Social Responsibility & Ethics

FIFTH EDITION

Ferrell · Thorne · Ferrell

BUSINESS

and

SOCIETY

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Social Responsibility & Ethics

Fifth Edition

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BUSINESS & SOCIETY:
A STRATEGIC APPROACH TO SOCIAL RESPONSIBILITY & ETHICS

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Preface

Business and its relationship to society has experienced many dramatic changes in the twenty-first century. Social responsibility has become much more important to companies due to the major economic challenges that faced companies in the early part of the century as well as the more recent global recession that is taking many years for recovery. During this time, many stakeholders lost trust in business, and throughout the world regulatory agencies tightened their grip on business decision-making to attempt to legislate responsible conduct. Many activities considered socially responsible yet voluntary are now viewed as mandatory or are considered best practices. The institutionalization of social responsibility and business ethics is being felt and reflected on by businesses and public policy decision-makers. The Sarbanes-Oxley Act of 2002 and the administrative rulings of the Securities and Exchange Commission have reformed corporate governance, internal controls, financial reporting, executive compensation, business ethics, and organizations' relations to stakeholders. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act revamped many aspects of financial compliance due to a loss of trust in our banking system. The Consumer Financial Protection Bureau was established to protect consumers in areas such as loans, credit cards, and financial transparency.

In this text, we demonstrate and help the instructor prove that social responsibility is a theoretically grounded yet highly actionable and practical field of interest. The relationship between business and society is inherently controversial and complex, yet the intersection of its components, such as corporate governance, workplace ethics, community needs, and technology, is experienced in every organization. For this reason, we developed this text to effectively assist decision-making and inspire the application of social responsibility principles to a variety of situations and organizations.

Because of this transformation of corporate responsibility, the fifth edition of *Business and Society: A Strategic Approach to Social Responsibility* is designed to fully reflect these changes. We have been diligent in this revision about discussing the most current knowledge and describing best practices related to social responsibility. The innovative text, cutting-edge cases, and comprehensive teaching and learning package for *Business and Society* ensure that business students understand and appreciate concerns about philanthropy, employee well-being, corporate governance, consumer protection, social issues, and sustainability.

Business and Society is a highly readable and teachable text that focuses on the reality of social responsibility in the workplace. We have revised the fifth edition to be the most practical and applied business and society text available. A differentiating feature of this book is its focus on the role that social responsibility takes in strategic business decisions. We demonstrate that studying social responsibility provides knowledge and insights that positively contribute to organizational performance and professional success. This text prepares students for the social responsibility challenges and opportunities they will face throughout their careers. We provide the latest examples, stimulating cases, and unique learning tools that capture the reality and complexity of social responsibility. Students and instructors prefer this book because it presents examples, tools, and practices needed to develop and implement a socially responsible business strategy. Finally, this book makes the assumption that students will be working in an organization trying to improve social responsibility and not just critics of business.

IMPORTANT CHANGES TO THE FIFTH EDITION

The fifth edition has been completely revised to include new examples, vignettes, and cases. Each chapter of the text has been updated to include recent social responsibility issues related to the economy, ethical decision-making, and concerns about corporate governance. Chapter 4 has been updated to include recent legislation that impacts business, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and amendments to the Federal Sentencing Guidelines for Organizations. In Chapter 5, we have inserted information about how to develop an ethical culture as well as normative considerations in ethical decision-making. Chapter 6 has been expanded to include the institutionalization of business ethics, the importance of ethical leadership, and requirements for becoming an ethical leader in an organization. An important addition to Chapter 9 involves social entrepreneurship and how it impacts the relationships between businesses and their communities.

New opening cases at the start of each chapter address a variety of issues related to the chapter content, including greenwashing, fracking, and childhood obesity. Companies featured in these cases include Target, CarMax, General Motors, and Credit Suisse. Two boxed inserts focus on social responsibility. One relates to ethical challenges in different areas of business, including human resources, marketing, accounting, and finance. Topics discussed in these vignettes include minimum wages, integrated reporting, and cooperative banking. Another boxed insert entitled "Earth in the Balance" focuses on social responsibility related to sustainability issues. These vignettes discuss green initiatives at companies such as Google, Unilever, and SodaStream.

The "Responsible Business Debate" feature at the end of each chapter introduces a real-world issue and presents two competing perspectives. The debate is positioned so that class teams can defend a position and analyze topics, giving students the opportunity to engage in active learning. Topics discussed include controversies over clearance pricing, performance reviews, business's influence on society, and the use of genetically engineered pesticides. We have also provided 15 cutting-edge cases, all of which are new or significantly updated.

CONTENT AND ORGANIZATION

Professors who teach business and society courses come from diverse backgrounds, including law, management, marketing, philosophy, and many others. Such diversity affords great opportunities to the field of business and society and showcases the central role that social responsibility occupies within various academic, professional, work, and community circles. Because of the widespread interest and multiplicity of stakeholders, the philosophy and practice of social responsibility is both exciting and debatable; it is in a constant state of discussion and refinement—just like all important business concepts and practices.

We define social responsibility in Chapter 1, "Social Responsibility Framework," 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*. To gain the benefits of social responsibility, effective and mutually beneficial relationships must be developed with customers, employees, investors, government, the community, and others who have a stake in the company. We believe that social responsibility must be fully valued and championed by top managers and granted the same planning time, priority, and management attention as any company initiative. Therefore, the framework for the text reflects a process that begins with the social responsibility philosophy, includes the four types of responsibilities, involves many types of stakeholders, and ultimately results in both short- and long-term performance gains. We also provide a strategic orientation, so students will develop the knowledge, skills, and attitudes for understanding how organizations achieve many benefits through social responsibility.

Chapter 2, "Strategic Management of Stakeholder Relationships," examines the types and attributes of stakeholders, how stakeholders become influential, and the processes for integrating and managing their influence on a firm. The chapter introduces the stakeholder interaction model and examines the impact on global business, corporate reputation, and crisis situations on stakeholder relationships.

Because both daily and strategic decisions affect a variety of stakeholders, companies must maintain a governance structure for ensuring proper control and responsibility for their actions. Chapter 3, "Corporate Governance," examines 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. Corporate governance is an integral element for social responsibility, which, until the recent scandals, had not received the same level of emphasis as issues such as environment and human rights.

Chapter 4, "Legal, Regulatory, and Political Issues," explores the complex relationship between business and government. Every business must be aware of and abide by the laws and regulations that dictate required business conduct. This chapter also examines how business can participate in the public policy perspective to influence government. A strategic approach for legal compliance, based on the Federal Sentencing Guidelines for Organizations, is also provided.

Chapter 5, "Business Ethics and Ethical Decision-Making," and Chapter 6, "Strategic Approaches to Improving Ethical Behavior," are devoted to exploring the role of ethics and ethical leadership in business decision-making. Business ethics relates to responsibilities and expectations that exist beyond legally prescribed levels. We examine the factors that influence ethical decision-making and consider how companies can apply this understanding to improve ethical conduct. We fully describe the components of an organizational ethics program and detail the implementation plans needed for effectiveness.

Chapter 7, "Employee Relations," and Chapter 8, "Consumer Relations," explore relationships with two pivotal stakeholders—consumers and employees. These constituencies, although different by definition, have similar expectations of the economic, legal, ethical, and philanthropic responsibilities that must be addressed by business.

Chapter 9, "Community Relations and Strategic Philanthropy," examines companies' synergistic use of organizational core competencies and resources to address key stakeholders' interests and achieve both organizational and social benefits. While 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. Strategic philanthropy involves both financial and nonfinancial contributions to stakeholders, but it also directly benefits the company.

Due to the internet and other technological advances, communication is faster than ever, information is readily available, people are living longer and healthier lives, and consumer expectations of businesses continue to rise. Chapter 10, "Technology Issues," provides cutting-edge information on the unique issues that arise as a result of enhanced technology in the workplace and business environment, including its effects on privacy, intellectual property, and health. The strategic direction for technology depends on the government's and businesses' ability to plan, implement, and audit the influence of technology on society.

Chapter 11, "Sustainability Issues," explores the significant environmental issues business and society face today, including air pollution,

global warming, water pollution and water quantity, land pollution, waste management, deforestation, urban sprawl, biodiversity, genetically modified foods, and alternative energy. This chapter also considers the impact of government environmental policy and regulation and examines how some companies are going beyond these laws to address environmental issues and act in an environmentally responsible manner.

Chapter 12, "Social Responsibility in a Global Environment," is a chapter that addresses the unique issues found in a global business environment. Emerging trends and standards are placed in a global context.

SPECIAL FEATURES

Examples

Company examples and anecdotes from all over the world are found throughout the text. The purpose of these tools is to take students through a complete strategic planning and implementation perspective on business and society concerns by incorporating an active and team-based learning perspective. Every chapter opens with a vignette and includes examples that shed more light on how social responsibility works in today's business. In this edition, all boxed features focus on managerial and global dimensions of social responsibility. Chapter opening objectives, a chapter summary, boldfaced key terms, and discussion questions at the end of each chapter help direct students' attention to key points.

Experiential Exercises

Experiential exercises at the end of each chapter help students apply social responsibility concepts and ideas to business practice. Most of the exercises involve research on the activities, programs, and philosophies that companies and organizations are using to implement social responsibility today. These exercises are designed for higher-level learning and require students to apply, analyze, synthesize, and evaluate knowledge, concepts, practices, and possibilities for social responsibility. At the same time, the instructor can generate rich and complex discussions from student responses to exercises. For example, the experiential exercise for Chapter 1 asks students to examine *Fortune* magazine's annual list of the Most Admired Companies. This exercise sets the stage for a discussion on the broad context in which stakeholders, business objectives, and responsibilities converge.

"What Would You Do?" exercises depict people in real-world scenarios who are faced with decisions about social responsibility in the workplace. One exercise (see Chapter 9) discusses the dilemma of a newly named vice president of corporate philanthropy. His charge over the next year is to develop a stronger reputation for philanthropy and social responsibility with the company's stakeholders, including employees, customers, and community. At the end of the scenario, students are asked to

help the VP develop a plan for gaining internal support for the office and its philanthropic efforts.

A new debate issue is located at the end of each chapter. The topic of each debate deals with a real-world company or dilemma that is both current and controversial. Many students have not had the opportunity to engage in a debate and to defend a position related to social responsibility. This feature highlights the complexity of ethical issues by creating a dialog on advantages and disadvantages surrounding issues. The debates also help students develop their critical-thinking, research, and communication skills.

Cases

So that students learn more about specific practices, problems, and opportunities in social responsibility, 15 cases are provided at the end of the book. The cases represent a comprehensive collection for examining social responsibility in a multidimensional way. The 15 cases allow students to consider the effects of stakeholders and responsibility expectations on larger and well-known businesses. These cases represent the most up-to-date and compelling issues in social responsibility. All of the cases used in this book are original and have been updated with all developments that have occurred through 2014. Students will find these cases to be pivotal to their understanding of the complexity of social responsibility in practice. The following provides an overview of the 15 cases:

- Case 1: Monsanto Attempts to Balance Stakeholder Interests. This case discusses the challenges and successes that Monsanto has experienced in balancing the interests of different stakeholders. The primary controversy that Monsanto has faced involves the patented and genetically modified nature of its seeds, pesticides, and herbicides.
- Case 2: The Mission of CVS: Corporate Social Responsibility and Pharmacy Innovation. This case examines the corporate social responsibility initiatives of CVS as well as ethical challenges it has faced. Of particular interest is CVS's decision to drop profitable tobacco products from stores to better align itself as a health services company.
- Case 3: Belle Meade Plantation: The First Non-Profit Winery Engages in Social Entrepreneurship. We discuss the Nashville plantation, Belle Meade's background, and the challenges it has faced as a nonprofit. To support itself instead of having to rely solely on donations or tour tickets, Belle Meade has become a social entrepreneur by developing and selling wine from the plantation's vineyards on the premises. Proceeds go to support the plantation. This endeavor in social entrepreneurship has led to the nation's first non-profit winery.
- Case 4: Multilevel Marketing Under Fire: Herbalife Defends Its Business Model. This case considers the accusations levied against Herbalife by activist investor William Ackman charging Herbalife's business model as being a pyramid scheme. We differentiate between a pyramid scheme and a multilevel marketing compensation model and apply this to Herbalife's business.

- Case 5: Hobby Lobby: Balancing Stakeholders and Religious Freedom in Business Decisions. We investigate the landmark decision in *Burwell v. Hobby Lobby* and its impact on the religious rights of closely held private companies. This victory for Hobby Lobby is likely to have major implications for the government's ability to require certain benefits if they conflict with a closely held company's religious principles.
- Case 6: Starbucks' Mission: Social Responsibility and Brand Strength. This case examines Starbucks' foundation for a socially responsible culture. It also describes how Starbucks strives to meet the needs of different stakeholders and how this stakeholder emphasis has led to the development of successful products and a strong brand image.
- Case 7: Lululemon: Encouraging a Healthier Lifestyle. We demonstrate Lululemon's success in its mission to help consumers live a healthier lifestyle. Additionally, we look at some of the controversies that have hit Lululemon in recent years, including the remarks and subsequent resignation of Board Chairman and founder Chip Wilson.
- Case 8: Coping with Financial and Ethical Risks at American International Group (AIG). This case covers the scandal involving AIG leading to the most recent recession as well as the controversial actions it took after it received government bailout money. It looks at how AIG has attempted to rebuild its reputation and restore trust.
- Case 9: The Coca-Cola Company Struggles with Ethical Crises. We look at the many ethical issues that have challenged Coca-Cola's dominance in the late 1990s to the first decades of the twenty-first century. In particular, we focus on how Coca-Cola has reacted to these crises and its initiatives to become a socially responsible company.
- Case 10: Enron: Questionable Accounting Leads to Collapse. This case describes the well-known example of Enron, one of the biggest bankruptcies of the time that shocked the world with its far-reaching effects. We examine the different players in the Enron crisis as well as the lessons that the Enron debacle can teach the business world.
- Case 11: The Complexity of Intellectual Property. This case takes an in-depth look at different types of intellectual property as well as how common violations occur. The lawsuit between Apple and Samsung is discussed to show that even large well-established companies deal with this issue.
- Case 12: Salesforce.com: Responsible Cloud Computing. We examine the success of Salesforce.com's cloud computing model. In particular, we focus on its 1-1-1 model to give back to the communities in which it does business.
- Case 13: Mattel Responds to Ethical Challenges. This case goes over Mattel's corporate social responsibility initiatives with a particular emphasis on its supplier code of conduct. Two major controversies Mattel has faced are discussed. The first is the lead paint and magnet scandal that forced Mattel to undergo a massive recall and damaged its reputation. A more recent example is the intellectual property dispute it has had with rival company MGA over the ownership of the Bratz dolls.

- Case 14: Home Depot Implements Stakeholder Orientation. Although Home Depot faced a decrease in customer satisfaction in the past, it has implemented a number of initiatives to restore its ethical reputation with stakeholders. Some major initiatives include its diversity supplier program, its use of wood certified by the Forest Stewardship Council, and its philanthropic involvement with Habitat for Humanity. Above all, Home Depot has adopted a stakeholder orientation that considers how it can best meet the needs of all its various stakeholders.
- Case 15: New Belgium Brewing: Engaging in Sustainable Social Responsibility. This case examines the background of New Belgium Brewing and its social responsibility initiatives. Its strong emphasis on sustainability and employee involvement are discussed as examples of how the craft brewery has been able to maintain its corporate values since its founding.

Role-Play Exercises

In addition to many examples, end-of-chapter exercises, and the cases, we provide three role-play exercises in the *Instructor's Manual*. The role-play exercises built around a fictitious yet plausible scenario or case support higher-level learning objectives, require group decision-making skills, and can be used in classes of any size. Implementation of the exercises can be customized to the time frame, course objectives, student population, and other unique characteristics of a course. These exercises are aligned with trends in higher education toward teamwork, active learning, and student experiences in handling real-world business issues. For example, the National Farm & Garden exercise places students in a crisis situation involving a product defect that requires an immediate response and consideration of changes over the long term. The Soy-Dri exercise requires students to come up with an action plan for how to deal with customer confusion over the appropriate use of different products. The Shockvolt exercise places students in a situation in which they must determine the ethics and potential legal implications for marketing an energy drink. The role-play simulations (1) give students the opportunity to practice making decisions that have consequences for social responsibility, (2) utilize a team-based approach, (3) recreate the pressures, power, information flows, and other factors that affect decision-making in the workplace, and (4) incorporate a debriefing and feedback period for maximum learning and linkages to course objectives. We developed the role-play exercises to enhance more traditional learning tools and to complement the array of resources provided to users of this text. Few textbooks offer this level of teaching support and proprietary learning devices.

A SUPPLEMENTS PACKAGE

The comprehensive *Instructor's Manual* includes chapter outlines, answers to the discussion questions at the end of each chapter, comments on the experiential exercises at the end of each chapter, comments on each case, and a sample syllabus. The role-play exercises are included in the manual along with specific suggestions for using and implementing them in class.

The Test Bank provides multiple choice and essay questions for each chapter and includes a mix of descriptive and application questions.

A PowerPoint slide program is available for easy downloading and provides a recap of the highlights in each chapter.

Visit www.chicagobusinesspress.com to request access to the instructor supplements

AUTHORS' PERSONAL WEBSITE

O. C. Ferrell and Linda Ferrell have established a teaching resource website based on their participation in the Daniels Fund Ethics Initiative. Their publicly accessible website contains original cases, debate issues, videos, interviews, and PowerPoint modules on select business and society topics as well as other resources such as articles on ethics and social responsibility education. It is possible to access this website at http://danielsethics.mgt.unm.edu.

ACKNOWLEDGMENTS

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Our goal is to provide materials and resources that enhance and strengthen teaching, learning, and thinking about social responsibility. We invite your comments, concerns, and questions. Your suggestions will be sincerely appreciated and utilized.

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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 introduce 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

NiSource—A Top Firm in Social Responsibility

For NiSource, social responsibility involves actively living its four core values: fairness, honesty, integrity, and trust. NiSource is a Fortune 500 company that owns a portfolio of energy businesses. Headquartered in Merrillville, Indiana, NiSource is involved in natural gas and electric transmission, storage, generation, and distribution in seven states.

The company's mission reflects its emphasis on social responsibility. It seeks to deliver "safe, reliable, clean and affordable energy" that benefits all stakeholders. As a profitable company complying with all applicable laws, NiSource achieves the economic and legal levels of social responsibility. It also exhibits strong ethical and philanthropic initiatives, leading it to be named one of the "World's Most Ethical Companies" for the third consecutive year. Its code of ethics encourages employees to take responsibility for the company's success and ethical conduct.

NiSource demonstrates a strong commitment to employees, customers, the environment, and communities. For instance, NiSource has taken a strong stance on improving employee safety and has become an industry leader in this area. NiSource incentivizes employees by offering them rewards for safe behavior. As a result, vehicle accidents have decreased 47 percent and other safety-related incidents by 62 percent.

NiSource also recognizes the dangers that consumers might face, especially in situations such as potentially hitting an underground utility line when digging in their yards. NiSource invests $2.3 million on public and safety awareness programs for consumers. As part of its awareness campaign, it created the mascot Digger Dog to appeal to children and educate them about calling the number 811 to receive information about the location of utility lines before digging.

Environmental sustainability is a strong component of NiSource's corporate culture. In 2014 the company completed a project estimated to reduce harmful sulfur dioxide emissions significantly. The company maintains a Board of Directors' Environmental Health and Safety Committee that evaluates and approves NiSource's environmental policy, including policies concerning climate change. NiSource also helps its customers save energy by developing energy efficiency programs such as its Customer CHOICE® program. This program allows customers to reduce energy costs by purchasing natural gas from non-utilities suppliers.

Finally, NiSource recognizes its responsibilities toward communities. It has established the NiSource Charitable Foundation to provide funds to nonprofits who it believes contribute toward its mission to help create "strong and sustainable communities." NiSource has invested $6.8 million toward nonprofit organizations.

NiSource invests resources in social responsibility and has been recognized for its many benefits. Because of its sustainability initiatives, NiSource was named to the Dow Jones Sustainability Index in 2012. It was also named among the top 25 Socially Responsible Dividend Stocks by the Dividend Channel. These awards are beneficial in attracting investors interested in investing in socially responsible companies. This has significantly impacted NiSource's bottom line—its stock outperformed the Dow Jones and Standard and Poor's indices with a total shareholder return of 8.5 percent. NiSource clearly proves that social responsibility helps stakeholders and the bottom line.[1]

Businesses today must cope with challenging decisions related to their interface with society. Consumers, as well as others, are increasingly emphasizing the importance of companies' reputations, which are often based on ethics and social responsibility. The meaning of the term "social responsibility" goes beyond being philanthropic or environmentally sustainable. Seventy-six percent of Americans think the meaning now extends to how employees are treated and the values a company holds.[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 NiSource, 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. Those who have an interest or stake in the company are referred to as stakeholders.

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; technology issues; sustainability issues; and global relations.

SOCIAL RESPONSIBILITY DEFINED

Business ethics, corporate volunteerism, philanthropic activities, going green, sustainability, corporate governance, 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 how businesses engage in these behaviors or contribute to these outcomes. In this chapter, we clarify some of the confusion that exists in the terminology that people use when they talk about expectations for business. 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 institutions. Businesses are expected to provide quality goods and services, 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 of good business conduct. 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 practice. For example, in 2014 General Motors (GM) instituted a recall of 2.6 million vehicles due to faulty ignition switches. Attorneys filed class action lawsuits against GM, and GM's case was hurt further because it knew about the faulty ignition switch problem years before the recall.[3] This is likely to put a damper on GM's reputation. The first female CEO of GM, Mary Barra, had to address these issues to restore customer confidence. However, GM can restore consumer confidence if they acknowledge mistakes, correct the problem, and make proper restitution. The goal is to prevent these negative outcomes in the future.

In contrast, a large multinational corporation may be faced with protestors who use physical means to destroy or deface property. For example, in 2014 Vietnamese protestors attacked Chinese companies to protest the location of a Chinese oil rig in disputed waters. In addition to much physical destruction, the protestors injured 129 people and killed 2. Many foreign-owned factories in Vietnam shut down as a result.[4] After the violence died down, companies still had to allocate resources to remodel their stores and answer criticism.

Finally, a company engaged in alleged deceptive practices may face formal investigation by a government agency. For example, officials at the Justice Department inquired about pricing discussions those in the publishing industry might have had to determine whether price fixing was taking place. This occurred two years after a civil antitrust lawsuit was settled with three book publishers who allegedly conspired with Apple to raise electronic book prices. The Justice Department is concerned that pricing discussions among publishers could lead to future price-fixing in order to keep up with Amazon.com's domination of the e-book and print book industries.[5] Investigations such as this 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, The Scooter Store, a company that sold motorized wheelchairs all over the United States, filed for Chapter 11 bankruptcy after a federal investigation determined the company had deceptively overcharged Medicare and Medicaid between $47 million and $88 million over the course of two years. The company was found to have engaged in deceptive tactics, such as continually contacting doctors to prescribe the motorized wheelchairs whether or not a patient was in need of one; claiming the wheelchairs were free in advertisements when taxpayers were paying for them; and contributing to political campaigns to avoid any changes to Medicare and Medicaid. In addition, the city of New Braunfels, Texas, the home of the company's headquarters,
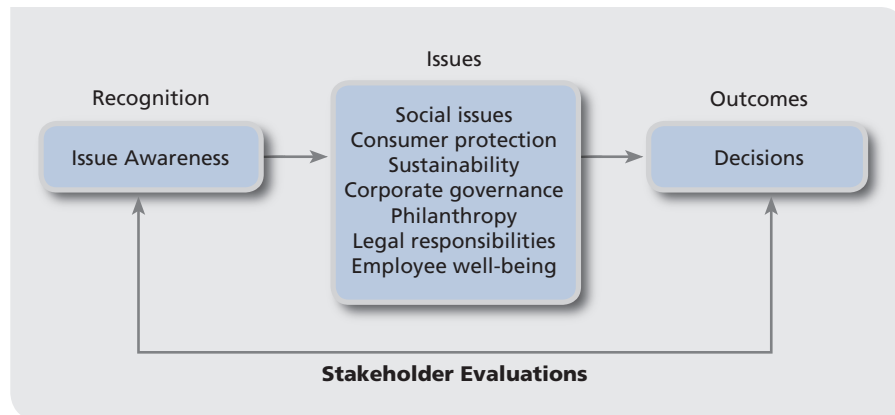
sued the company for the more than $2 million that was given to them from an economic development fund to build their headquarters. To make matters worse, consumers remarked they made purchases from the company because they claimed their goal was to "Always Do the Right Thing."[6]

Businesses today are expected to look beyond self-interest and recognize that they belong to a larger group, or society, that expects responsible participation. Therefore, 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. Research indicates that the most ethical and socially responsible companies are the most profitable.[7] Therefore, responsible conduct and policies yield significant benefits to society as well as shareholders. While the media provides much coverage of misconduct and illegal activities in business, most businesses try to act in an ethical and socially responsible manner.

The term *social responsibility* came into widespread use in the business world during the 1970s. It has evolved into an emphasis on the following areas: social issues, consumer protection, sustainability, and corporate governance. Social issues are linked with the idea of the "common good." The common good is associated with the development of social conditions that allow for societal welfare and fulfillment to be achieved. In other words, social issues involve the ethical responsibilities a firm owes to society. Equal rights, gender roles, marketing to vulnerable populations, data protection, and internet tracking are examples of social issues common in business. Social issues can become so significant that they warrant legislation to protect consumers. For the Federal Trade Commission's Bureau of Consumer Protection, leading consumer protection issues include misleading advertising, product safety, and advertising to children.

Sustainability has also become a growing area of concern in society. In the United States, sustainability is used to refer more to the environmental impact on stakeholders. Green marketing practices, consumption of resources, and greenhouse gas emissions are important sustainability considerations that socially responsible businesses will have to address. Corporate governance will be described in more detail in Chapter 3. It refers to formal systems of accountability, oversight, and control. Corporate governance is becoming an increasingly important topic in light of business scandals over the last 10–15 years. Issues in corporate governance include concerns over executive compensation, internal control mechanisms, and risk management.[8] Figure 1.1 discusses the social responsibility issues that we will be covering in this text.

These four areas of social responsibility tend to conflict with the traditional or neoclassical view of a business's responsibility to society. The traditional 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 shareholders, and that any other considerations are outside its scope.[9] Although this view still exists

FIGURE 1.1 Major Emphases of Social Responsibility

Issues

Recognition

Outcomes

Issue Awareness

Social issues
Consumer protection
Sustainability
Corporate governance
Philanthropy
Legal responsibilities
Employee well-being

Decisions

Stakeholder Evaluations

Source: © O.C. Ferrell, 2014.

today, it has lost credibility as more and more companies have assumed a social responsibility orientation.[10] Companies see social responsibility as a part of their overall corporate strategy and a benefit that directly increases the bottom line. 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
The adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders.

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, Altered Seasons, a candle retailer in Buffalo, New York, operates on a one-for-one model, where the company gives a meal to the hungry for every candle that it sells. The company's candles are made from environmentally friendly materials and are manufactured in the United States.[11] Thus, the ideas advanced in this book are equally relevant and applicable across a wide variety of businesses and nonprofits.

Nonprofit organizations are expected to be socially responsible. Relationships with stakeholders—including employees, those that are served, and the community—affect their reputation. For example, the Southern California chapter of the Better Business Bureau was expelled from the organization after evidence emerged in 2010 that it had been operating a pay-for-play scheme. The Better Business Bureau is a nonprofit self-regulatory organization that objectively rates businesses on how they

treat consumers and handle consumer complaints. Investigations revealed that employees at the Southern California bureau were awarding businesses high rankings only if they paid to become members. The bureau is the largest ever expelled for misconduct.[12] This example demonstrates that nonprofit organizations must also develop strategic plans for social responsibility. In addition, government agencies are expected to uphold the common good and act in an ethical and responsible manner.

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.[13] 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.[14] It is vital that all businesses consider the relationships and expectations that our definition of social responsibility suggests.

Social Responsibility Needs a Strategic Focus

Social responsibility is an important business concept and involves significant planning and implementation. Our definition of social responsibility requires a formal commitment, or a way of communicating the company's social responsibility philosophy. For example, Herman Miller, a multinational provider of office, residential, and healthcare furniture and services, established a set of values that create a culture of community both within and outside of the company (shown in Table 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 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, Hershey Entertainment & Resorts focuses upon

TABLE 1.1 Herman Miller, Inc.'s, Corporate Culture Values of Community

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

Source: "Things That Matter to Us," Herman Miller, Inc., http://www.hermanmiller.com/about-us/thingsthatmattertous.html (accessed May 28, 2014). Courtesy of Herman Miller, Inc.

four pillars of CSR: (1) the environment and the goal to reduce the eco-logical footprint; (2) the community and being a positive, productive, and informed partner; (3) the workplace, in fostering one that is safe, inclusive, desirable, and respectful; and (4) a marketplace and guest focus that con-siders the ethical treatment of all stakeholders.[15]

In addition to a company's verbal and written commitment to social responsibility, our definition requires action and results. To imple-ment 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 devel-opment opportunities, volunteerism, and an environmental stewardship program.[16] 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 many 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," and *The Progressive Investor*'s "Sustainable Business Top 20."[17] 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. Leaders must believe in and support the integration of stakeholder interests and economic, legal, ethi-cal, 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.[18] 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 envi-ronmentally sustainable product may stimulate a stronger company inter-est in assuming environmental leadership in all aspects of its operations. Home Depot, for example, responded to demands by consumers and envi-ronmentalists 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.[19] With this action, the company—which has long touted its environmental principles—has chosen to take a leadership role in the campaign for envi-ronmental 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.