

After studying this chapter, you should be able to:

- A Define social responsibility and present four viewpoints concerning the social responsibility of business.
- A Discuss criticisms of business as it exists and operates in contemporary society.
- A Identify parties to whom a business may have social responsibilities.
- A Discuss costs and benefits of social responsibility,
- A Identify guidelines for planning and organizing social actions.
- A Cite some notable corporate social actions.
- A Define business ethics and discuss how ethical behavior can be encouraged.

On December 3, 1984, a deadly cloud of methyl isocyanate gas leaked from the Union Carbide Corp. chemical plant in Bhopal, India, and covered a 25-square-mile area. By the time it cleared, 2,000 people were dead and many thousands more were injured. For Union Carbide, the clouds have not yet cleared. Lawsuits totalling tens of billions of dollars, investigations into the company's safety procedures, and allegations about management's prior knowledge of dangers continue to hang over the company's head. In recent years, other companies have found themselves the focus of vocal criticism. Nestle Corp.'s sales of infant formula in developing countries sparked protests and boycotts charging that Nestle was contributing to malnutrition. General Motors is still feeling the effects of criticisms of the Corvair's safety record.

But consider these facts: Celanese, a chemical company, recently gave the National Audubon Society \$400,000 for research on the Atlantic puffin, the California condor, and other endangered bird species. Aetna Life and Casualty, an insurance firm, provided nearly \$6 million in grants in a single year for such varied purposes as publishing a bilingual community newspaper, supporting a program of legal aid for female criminal offenders, and expanding a news service for American Indians. Shell Oil contributed \$2 million for testing Interferon, an antiviral drug which may be effective against cancer.

Bhopal, baby formula, puffins, and papers are a strange assortment, reflecting the many sides of the topic of social responsibility. In this chapter we will explore viewpoints on social responsibility, consider interested parties, and assess costs and benefits of social actions. We will then examine the related issue of business ethics.

WHAT IS SOCIAL RESPONSIBILITY?

Most people would agree that social responsibility of business reflects business' concern for the social as well as the economic effects of its decisions. That is, it relates to the need for business to fulfill social expectations, and perhaps needs, adequately. Beyond these general statements, there is less agreement. Some see economic and social effects as completely congruent, while others see them as potentially in conflict. To some, social responsibility might be evidenced by a company's willingness to incur costs that do not relate directly to the company's production of goods and services. To others, the acceptance of such costs would be seen as a violation of social responsibility. To some, such actions as voluntarily controlling smokestack emissions or building a little league baseball diamond would fall under the mantle of social responsibility. Others would see those actions as clearly outside the legitimate social role of business. Some socially impacting actions by firms are presented in Figure 24-1.

Figure 24-1 **SOME NOTABLE CORPORATE SOCIAL ACTIONS**

- ▲ Time, Inc., the nation's largest magazine publisher donated 2,138 acres of land in Texas to the Nature Conservancy for use as a nature sanctuary. The land is of great ecological significance, harboring 340 species of wild-flowers.
- ▲ The Hangerhut Corporation, a Minnesota direct-mail marketing company, reimburses employees for cab fares when they take a taxi home rather than driving while intoxicated. The company also gave smoke detectors to its 2,600 employees for installation in their homes,
- ▲ New England Mutual Life Insurance Company pays all tuition costs to degree-granting institutions for its home-office employees. About 200, or 10 percent of these employees are enrolled in such institutions,
- ▲ Safeway Stores, the nation's largest supermarket chain, has a specially designed shopping cart for customers in wheelchairs. The cart clamps firmly to the wheelchair for easy maneuverability. There is at least one cart in each of Safeway's 2,000 stores.
- ▲ The Ore-Ida Division of the H. J. Heinz company, a major food processor is currently testing a solar heating system for cooking french fries. The system promises to save 500,000 cubic feet of natural gas a year.

Source: William H. Cunningham, Ramon J. Aldag, and Christopher M. Swih, *Introduction to Business* [Cincinnati: South-Western Publishing Co., 1984], p.50. Reproduced with permission.

Academic Profile

KENNETH R. THOMPSON



Kenneth R. Thompson (Ph.D., University of Nebraska) is Assistant Professor of Management and director of the Center for Managerial and Executive Development at the University of Arkansas. Professor Thompson is coauthor of *Social Issues in Business: Strategic and Public Policy Perspectives*, fourth edition, and of other books. His research on business/government interfaces, employee turnover, and other topics has been published in a variety of academic journals. He is a member of the editorial review board of *Strategy and Executive Action* and is secretary /treasurer of the Midwest Academy of Management.

Q: Why should managers bother to read about social issues and ethics?

A: The field of management is rapidly changing, particularly with respect to strategic planning. This area of management is concerned with the interface of the organization with its external environment. Social issues or social responsibility and ethics directly link with an organization at its environment. As Mintzberg has pointed out, top organization decision makers, or as he termed them, peak coordinators, make decisions that may be influenced by external and internal coalitions. External coalitions consist of groups such as society, suppliers, competition, consumers, and government. Society's view of the organization will be predicated on the perception of the appropriateness of its behavior. The greater the perception of inappropriateness of corporate actions, the greater the probability that society will place constraints on the activities of business through public policy. Hence, a manager ought to have a pulse on societal viewpoints, perceptions, and a sense of what is correct and incorrect conduct. This sense is just as important as having information about customer preferences and trends in the marketplace.

Q: Do you feel that ethics and social issues will receive more or less management attention in the future?

A: I recently felt that interest in social issues and concern with ethics was moderating after the centrality of concern people had for these topics in the 1960s and early 1970s. Under the influence of the Reagan presidency and a less liberal Congress, there seems to be less concern with social issues. However, the vulnerability and responsibilities of organizations have not changed and neither has society's sense of what is right and wrong. Major pieces of social legislation were passed in the last two

decades in the areas of discrimination in employment, pollution control, worker safety and health, and resource conservation. These laws served to move the country to a greater awareness of noneconomic considerations and reflect a desire of society to place greater value upon the rights of the individual. This viewpoint hasn't changed. While there seems to be less of a "splash" in the media with ethical and social responsiveness issues, the real work is being carried out in the courtrooms and in the quiet vigilance of "watchdog" groups. Management, through its professional staff, needs to be aware of legal precedents and their implications. Q: It seems to some observers that systematic research on social issues is less abundant than in some other areas of management. Do you agree with that assessment? If so, why do you think this is the case?

A: I am really depressed about the lack of substantive and systematic research in the field of social responsiveness and ethics- I am guilty of this charge too! It seems that the field is centered more on thinkers and philosophers than on clinical and practical researchers, particularly those who do research on these areas in management. However, luckily for public policy formulators, other disciplines are doing some substantive research. Economists, socio/demographic researchers, political scientists, agricultural economists, urban geographers, and others have done much work assessing the impacts of pollution, social policies, and economic consequences of particular business actions and public policy toward business activities. In addition, private study groups such as the Committee for Economic Development have helped to bridge the gap between opinions and philosophies with measurable, quantified analysis.

VIEWS ON SOCIAL RESPONSIBILITY*

While it is easy to say that firms should be socially responsible, there is far less agreement over exactly what social responsibility means. Let's consider some viewpoints on this complex, important, and often emotion-laden issue.

The Classical View

The economist Adam Smith wrote in 1776 that businesses contribute to the greater good of society when they act in their own best interest. This **classical** view of business is sometimes called the invisible hand. According to this view, when a firm produces goods and services in the most profitable way possible, it is guided as if by an invisible hand to use society's material and human resources responsibly and wisely. As a result, there will be greater social welfare for all. Any action not in the best interest of the firm works against the invisible hand and reduces good to the community. As stated by economist Milton Friedman, "The business of business is business."

Arguments in Favor of the Classical View. Defenders of the invisible hand, or classical, view of business would argue first that harm will result if a business tries to achieve any end except its own well-being. Classical thinkers believe that business has an implied contract with society to use resources effectively—or to use resources to promote the business, which in turn promotes society. If a business specifically begins to spend time and money directly on some social issue, such as sponsoring a drug rehabilitation program, then the business will be breaking the contract to use its resources for itself.

Second, classical thinkers believe that the voting public, not the people in business, should set social priorities. If the public wants certain social problems solved, then the public should work through the legislature for the passage of appropriate laws. Letting businesses set social priorities takes power away from the majority and gives it to the few.

Finally, the supporters of the classical view might argue that social issues are better handled by expert social planners than by companies. Business managers should stick to what they know: running businesses.

Arguments against the Classical View. According to its many critics, the classical view of the role of business in society is based on narrow thinking and outdated assumptions. The classical view, the

L. For a detailed discussion of these viewpoints and references concerning their respective proponents, see R. J. Aldag and D. W. Jackson, Jr., "A Managerial Framework for Social Decision Making," *Business Topics* 23 (1975): 33-40.

The classical view suggests that the voting public, not businesses, set social priorities.



critics say, assumes that individual firms have no market power and no control over prices. Such perfect competition is more an ideal than a reality.

The classical view also assumes that businesses can stay healthy in a sick society. But in reality, say critics, the pace of industrial society places a great deal of stress on the environment and on the emotional and physical health of workers. In the long run, can a firm operate profitably if clean air and water are scarce, or if the work force deteriorates because of health problems?

Another argument against the classical view is that it does not acknowledge that society has certain expectations as to how businesses should act. In fact, these expectations go beyond those set down in law. Society is made up of organizations—corporations, nonprofit groups, churches—as much as it is made up of people. Just as the actions of individuals affect society, so do the actions of organizations. Therefore, if we expect socially responsible behavior from individuals, why not expect the same from organizations?

In a sense, many attacks on the classical view reflect a variety of criticisms about business itself as it exists and operates in contemporary society. Neil Jacoby summarizes those criticisms as follows:²

- A Big businesses exercise concentrated economic power contrary to the public interest.

10-15. & N> H, Jacoby, *Corporate Powez and Responsibility* (New York: Macmillan, 1973),

- ▲ Big businesses are controlled by a self-perpetuating, irresponsible "power elite."
- A Big businesses exploit and dehumanize workers and consumers. A Big businesses degrade the environment and the quality of life.

Whatever we think of these criticisms, we must recognize that they are rather widely held. In response to arguments against the classical view, at least three alternative viewpoints have emerged.

The Constrainer View

Constrainers view business enterprises as essentially indifferent to the social consequences of their actions or feel that businesses tend to act irresponsibly unless constrained by legal and political means. This group calls for strict laws to govern product safety, advertising, pollution, and competitive practices. Figure 24-2 reflects some concerns and reactions of constrainers.

The Foreboder View

Foreboders believe that businesses must contribute to social improvement; otherwise, social problems will worsen and government will be forced to step in. Promoting such social improvement was the goal of the 51-company partnership, including the Ford Motor Company and several life insurance firms, which backed the Detroit Renaissance Center. The Renaissance Center, built in a decaying section of the Detroit waterfront, contains the world's largest hotel and four massive office buildings. Whatever its immediate financial return, foreboders would see such urban renewal as a wise and forward-thinking move.

The Demander View

Demanders cite the iron **law** of responsibility, stating that responsibility must equal power. Since firms are not the powerless entities of perfect competition, they must be willing to exhibit a level of social involvement in proportion to their resources and power. Demanders argue that firms must actively address society's needs, diverting **their** excess resources to social ends. Demanders would see support of cancer research or protection of endangered species as appropriate uses of corporate funds.

For example, research indicates that executives in larger firms hold relatively more classical, profit-maximizing orientations toward social responsibility and are less likely to favor reallocation of excess corporate resources than others. Younger executives are more likely to adopt the demander orientation. Those with an external locus of control tend to

Figure 24-2 A BODY TO BE KICKED

A 19th-century English judge, Edward Baron Thurlow, lamented in a court decision, "Did you ever expect a corporation to have a conscience when it has no soul to be damned and no body to be kicked?" Then he whispered; "By God, it ought to have both."

A century later, Jay Magnuson went looking for a body to kick when an elderly Polish immigrant died of cyanide poisoning in the suburban Chicago plant of Film Recovery Systems, Inc. After an eight-month investigation, the Illinois assistant state's attorney general brought, in October 1983, what may be the first case in the United States charging corporate officials with murder in a work-related death.

Film Recovery's workers used cyanide to extract silver from film scraps. Prosecutors say that they may have evidence that the workers, mostly non-English-speaking immigrants, weren't warned about the dangers of cyanide and were provided minimal safety equipment.

1B February, 1983, Stephan Golab, a 61-year-old Polish immigrant, collapsed and died near an open vat of cyanide, his colleagues said. The Cook County medical examiner ruled that Mr. Golab died from cyanide poisoning; and that his death was a homicide. The plant was closed and federal regulators fined the company \$2,425 for safety violations. A Cook County grand jury indicted five company officials for murder.

Now, the idea of applying criminal laws to corporate executives is getting increased attention world-wide. The impetus is the mass poisoning in Bhopal, India, where more than 2,000 people died after a Union Carbide Corp. plant accidentally released a cloud of deadly gas.

In the United States, the India tragedy is generating demands for tougher corporate-responsibility laws. Rep. John Conyers plans to introduce in Congress a bill that would subject a company manager who knowingly conceals a dangerous product or business practice to up to 10 years in prison, a maximum \$250,000 fine, or both. "There's a growing consensus that the only way to deal with these problems is to impose very serious criminal penalties and actually put these people behind bars," an aide to the Michigan Democrat says.

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favor the classical view. Finally, executives with positive faith in people are likely to be less skeptical about corporate claims of social responsibility than are others.* Taken together, these findings suggest that the viewpoints we have considered may systematically vary as a function of firm and individual characteristics.

3. See R. J. Aldag and K. M. Bartol, "Empirical Studies of Corporate Social Performance and Policy: A Survey of Problems and Results" in L. E. Preston, ed., *Research in Corporate Social Performance and Policy* vol. 1 [Greenwich, CT: JAI Press, 1978]: 165-99; and R. J. Aldag and D. W. Jackson, Jr., "Measurement and Correlates of Social Attitudes," *Journal of Business Ethics* 3 (1984): 143-51.



Managerial Profile

JOHN FLICKER

John Flicker is executive vice-president of The Nature Conservancy. He has been with The Nature Conservancy for 12 years and previously held the positions of director of protection programs, director of the Great Plains Field Office, general counsel, and Midwest regional attorney. A native of Minnesota, Mr. Flicker holds degrees from the University of Minnesota and William Mitchell College of Law.

Q: Could you briefly describe the general philosophy and goals of The Nature Conservancy?

A: The Conservancy's philosophy and goals are very closely related. We have only one goal—to protect the best remaining examples of ecologically significant natural areas and the diversity of life they support. Our philosophy in accomplishing this goal is to be pragmatic. We focus all of our resources on realizing that single goal, and we define our strategies in terms of what it will take to reach it. We are science-based, politically neutral, and nonconfrontational.

Q: *Industry Week* has called The Nature Conservancy "industry's favorite environmental group." The Nature Conservancy has chosen to work with the business community to further environmental concerns rather than to adopt a more traditional confrontational stance. Why has it taken this course?

A: Once again, we are pragmatic. We do it because it works better than any other approach. A confrontational or political approach might make better news headlines, but it would not be the best way to accomplish our goal. Good conservation is usually also good business. We can get much more done by working with business and industry than we can get by fighting them. Q: Could you point out a few of the notable successes which have resulted from cooperation between The Nature Conservancy and the business community?

A: We protected much of the Great Dismal Swamp on the North Carolina-Virginia border through a 50,000-acre gift from Union Camp Corp. and an 11,000-acre donation from Weyerhaeuser Co. Similarly, International Paper has made land gifts to us over many years totalling more than 30,000 acres.

Corporate land donations have also been critical to the success of our trade lands program. Trade lands are nonecologically significant lands that we accept as donations and resell. We then use the proceeds to finance projects that further our objectives.

In addition to receiving outright donations of land, we've bought land from many corporations

through "bargain sales." For example, Champion Inc. (formerly St. Regis) sold us critical habitat for Mississippi sandhill cranes at \$1.2 million below its fair market value, taking the difference as a charitable write-off. Since we conducted the proceedings under friendly "threat of condemnation," the corporation also received a tax deferment on their long-term capital gains.

We've received more than \$2 million in cash gifts from corporations during each of the past two years. We currently have 442 "corporate associates"—a special membership category for corporations that make annual cash gifts of \$1,000 to \$10,000.

Q: Are there any specific environmental areas in which assistance of the business community is now especially important?

A: Assistance from the business community is probably most important in an area that's common to all efforts to protect the environment—money. For years, conservation organizations depended heavily on federal funds. This is especially true in the area of land conservation, where the government traditionally has spent tens of millions of dollars a year. Because of budget constraints, however, the government is now passing this expensive responsibility on to the private sector. The corporate community must take a leadership role if we are going to protect our remaining wildlife habitats. Q: Is there a place for business school graduates within The Nature Conservancy?

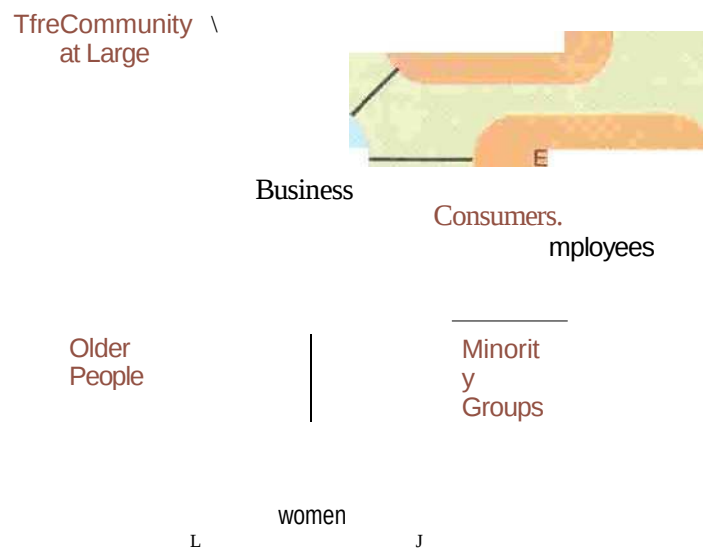
A: Absolutely. In addition to scientists and attorneys, we hire many people with M.B.A. degrees. We have the same organizational needs as any corporation, and it's vital to our success that we have people who understand areas such as tax structures, real estate negotiations, financial management, information systems, and strategic planning, to name a few. But most importantly, the Conservancy needs people who understand business concepts and perform well under the pressure associated with a corporate environment.

INTERESTED GROUPS

In considering its responsibilities to society, business must weigh the interests of many groups. Some of these groups are shown in Figure 24-3 and are discussed in this section.

Figure 24-3

PARTIES TO WHICH BUSINESS MUST BE RESPONSIBLE



Source: William H. Cunningham, Ramon J. Aldag, and Christopher M. Swift, *Introduction to Business* (Cincinnati: South-Western Publishing Co., 1984), p. 49. Reproduced with permission.

Shareholders

Since shareholders are the owners of the firm, we might expect that their interests would always be given highest priority. In fact, though, the managers of corporations often take actions that are not in the best interests of shareholders. Shareholders generally have little influence over the day-to-day management of their companies. Later in this chapter, the benefits and costs of social actions to shareholders will be examined separately.

Consumers

Consumers are an important societal group toward whom businesses must behave responsibly. One listing of consumer rights was expressed by President Kennedy in 1962:

- A The right to choose from a range of brands of products and services*
- A The right to be informed of important facts about a product or service; such as quality, health hazards, and durability.
- A The right to be heard by business and government, to make complaints or suggestions, and to ask questions.
- A The right to be safe when using products or services.

Employees

Of course, firms should protect the health and safety of their employees. Occidental Petroleum closed the pesticide unit of one of its chemical plants when several male workers in the unit were found to be sterile. In a case against the Manville Corporation, maker of asbestos products, a Los Angeles Superior Court jury awarded a former shipyard worker \$1.2 million in compensation. The worker had contracted asbestosis, a lung ailment caused by inhaling the asbestos fibers. Manville, as well as other firms in the same industry, is facing hundreds of other damage suits across the country.

More generally, it is believed that companies should offer salaries and other employee benefits that are appropriate to the work performed as well as to the skill, knowledge, and training of the worker. Many companies also share their good fortune with their employees. When Apple Computer had an especially good quarter in 1981, it gave each of its 2,500 employees an extra week's vacation.

We've seen in previous chapters examples of other rights of employees, including the right to privacy and the right to retain their jobs unless just cause for termination can be shown. Later in this chapter, we will consider the right of employees to speak out.

Minority Groups

Certain minority groups have been treated unfairly in the past. Some groups, blacks and Hispanics for example, have been easily identifiable targets for discrimination in hiring and promotion. Several laws now help to prevent discrimination and, in some cases, to make up for past discrimination. Dean Witter Reynolds, a stock brokerage firm, agreed to make payments of \$1.8 million to Hispanic, black, and female brokers who applied to or worked for the company from 1976 through 1981. These people had been discriminated against in hiring and promotion.

decisions. The company was also required to establish a \$2.8 million affirmative action program. The purpose of this program was to place minority persons in brokerage positions.

Women

Until fairly recently, most working women were employed as secretaries, nurses, teachers, receptionists, and retail sales clerks. Very few women held professional or managerial jobs. Now, more and more women are pursuing careers in these areas. Federal law requires that businesses make a serious effort to recruit and retain female employees, as well as to treat them fairly. Otherwise, the businesses risk potentially serious legal consequences. For example, the Bechtel Corporation, a California engineering firm, settled a sex discrimination case by agreeing to pay \$1.3 million in damages to former and current female employees. In another case, American Airlines agreed to rehire 300 flight attendants who had been fired because of pregnancy and to pay them a total of \$2.7 million.

Older People

The average age of the U.S. work force is increasing. The reasons include longer life expectancy, a tapering off of the "baby boom/" a greater number of middle-aged women who are working, and a relaxation of mandatory retirement rules.

The protection of the rights of older people in the workplace, therefore, is becoming more important. The Age Discrimination in Employment Act of 1978 specifically prohibits age discrimination. But aside from the law, the attitude of employers is important. It is clear that older workers have valuable skills and abilities. Arbitrarily dismissing a skilled worker at age 60 or 65 hurts both the employee and the company.

The Handicapped

It is also recognized today that handicapped people can be productive and loyal employees. Accordingly, business firms have begun to act more responsibly in hiring and promoting the handicapped. Ability, not disability, is what matters. It is likewise the responsibility of businesses to see that curbs, stairways, and similar obstacles do not prevent handicapped people from doing their jobs properly.

The Community at Large

Many laws and watchdog groups now protect society from the potentially disruptive actions of business. One area of special concern is

environmental protection. U.S. Steel settled a lengthy dispute with the Environmental Protection Agency by agreeing to spend \$400 million to clean up air and water pollution from its plants in Pittsburgh. Fines and negative publicity require that firms be especially careful about the effects of their actions on the environment and other aspects of community life.

Businesses operate in a highly diversified society; they affect many social and economic groups and are affected by these groups in turn. It is clear that a company manager must have a wide range of abilities and an open mind to be successful in such a setting.

BENEFITS AND COSTS OF SOCIAL ACTIONS

Is being socially responsible good for business* We'll approach this question from the perspective of the costs and benefits of socially responsible actions.

Benefits

A company may benefit directly and indirectly by taking socially responsible actions. One obvious benefit is improved employee satisfaction and motivation. Employees are likely to be more satisfied at work and more motivated to achieve the organization's goals if they believe the company actively contributes to society.

Other benefits occur in the marketplace. By showing a genuine interest in social needs, a firm may become more aware of changing consumer tastes and preferences. The socially responsible firm may also find that its products and services are in greater demand because consumers recognize and appreciate such companies. These benefits relate directly to increased sales revenue and profitability. Some companies are trying to strengthen this link between marketing and social responsibility. As one example, American Express Company gave the Statue of Liberty-Ellis Island Foundation \$1.7 million to help restore the Statue of Liberty. It generated the gift money by promising in a national ad campaign to donate a penny to the statue for each use of its charge card and a dollar for most new cards issued in the U.S. Card usage increased 28 percent during the quarter over the same period in 1982. As another illustration, Carter Hawley Hale Stores Inc., parent of Neiman Marcus, is narrowing its giving to only the visual and performing arts and only in major cities. The reason; to make sure its efforts are evident to its socially upscale customers.⁴

4. *The Wall Street Journal* (June 21, 1984), I, 20.

Just as consumers may favor the products of responsible firms, so might investors prefer the stocks of such firms. The company with a highly visible social program may find that its stock sells at a higher market price. For a discussion of socially responsible investing, see Situation 1.

SITUATION 1

Investing Based on Social Issues

When Daniel C. Johnson was growing up, he protested against the Vietnam War. Now he's a 29-year-old doctor in Oakland, California, and he protests against Central American policy.

Dr. Johnson's political conscience has stayed constant, but his life has changed: Now he has money to invest. So he tries to keep his investments consistent with his politics. For instance, he won't invest in military-equipment companies. "I don't want my money funding the current military policy of our country," he says.

Some people call this socially responsible investing; others say it's just another name for left-wing investing and call it financially irresponsible. Whatever it's called, it's spreading. Several mutual funds, money market funds, and newsletters catering to politically active clients have sprung up in the past two years. Traditional investment firms deride the investments as impractical money losers, but proponents predict that a good track record will eventually make this kind of investing common. Most of the growth in social investing has taken place since 1982. Many of the children of the 1960s have money now, and they still worry about issues like nuclear weapons and U.S. business in South Africa.

The funds look for companies with social consciences like theirs. Three "good" companies that crop up on some lists: Quaker Oats Co., which makes low-sugar cereals; Dayton Hudson Corp., which uses 5 percent of its federally taxable income for charitable purposes; and Magma Power Co., a leader in the development of geothermal energy.

The financial record of socially responsible funds has been mixed. In 1983, the three general "social investing" mutual funds—Calvert, Dreyfus, and Pax World Fund—all earned a positive return. Pax World, with a return of 24.17 percent, even did a little better than the Standard & Poors 500 stock index, which rose 22.6 percent. But Calvert's funds earned only an 11 percent return. Dreyfus Third Century earned a 19.7 percent return.

Increased interest in social investing has recently spawned two newsletters, *Insight* and *Good Money*, which, among other things, track the performance of "acceptable companies." But most traditional mutual fund companies are still skeptical. Robert P. Lynch, a managing partner of Lord, Abnett Co., argues that brokers should concentrate on "making a profit in their own style—you don't put handcuffs on that."

Some proponents insist they can prosper not in spite of social screening, but because of it "Corporate responsibility is important as an indication of

enlightened and progressive management," says Jerome L. Dodson, who founded Working Assets Management Company of San Francisco and is starting a mutual fund called Renaissance Fund.

But for many customers, the return isn't so important. As Jamie Cope, a Newton, Mass., photographer and investor, says. "If I put my money into something that made bullets and I was driving a Mercedes because of that investment, I couldn't enjoy it. . . I'd rather gain slowly and feel good about it."

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In the long run, socially responsible actions by business may eliminate the need for legislative controls on business activity. Such controls often cost firms more in lost business opportunities than the socially responsible actions would have cost.

Control Data is one company that recognizes the benefits of socially responsible actions. It has invested millions of dollars in such projects as redeveloping rundown neighborhoods, assisting small farmers, and providing computer-based education systems. According to its statement of corporate mission, Control Data is "a worldwide corporation committed to a strategy of addressing society's major needs as profitable business opportunities."

Costs

Although social responsibility may be cheaper than government controls, it is not without costs. The most obvious cost is the money spent in direct support of social projects. A \$50,000 grant to a community theater group is \$50,000 that is no longer available for financing plant expansion. By diverting funds away from profitable investment opportunities, the company is not maximizing shareholder wealth. Also, if hard financial goals are not pursued, it may be difficult to distinguish between good and bad management, in the long run, therefore, the market price of the stock of socially responsible companies may just as easily fall as rise.

A further cost relates to the issue of competitive parity. A company may stay on equal footing with its competitors if all the companies support social projects, but a company which alone supports such projects may lose business if its competitors use their surplus resources to strengthen their competitive positions.

Finally, it is possible that government may step in and regulate the private provision of social services and programs. Private companies have traditionally served society by providing goods, services, jobs, and a return on investment to shareholders. Venturing into this new area

social "product/" well-intentioned companies may find that their actions bring forth more government regulation.

Comparing Benefits and Costs

Are the benefits of a proposed set of corporate social programs greater than the costs? How does the decision maker proceed? If we could clearly measure the benefits and costs in terms of dollars, then the answer to this question would be easy: Implement the proposed program if total benefits exceed total costs; rethink the program if they do not. But this is an area lacking simple answers. Many factors affect the comparison of benefits and costs. Among them are the actions of competitors, possible government controls, the amount of cash on hand, and the "visibility" of the social programs themselves.

Firms must consider the costs and benefits of social programs.



The U.S. Steel case mentioned earlier in this chapter provides a good illustration of how difficult these decisions can be. Pollution controls at the company's mills would produce an undeniable benefit of cleaner air to people living nearby. But the costs are undeniable too. Not only is there the cost of installing and operating the pollution control equipment, but also there are the costs involved in depressed output, lost jobs, and higher steel prices. If you ran U.S. Steel, what would you do? Would U.S. Steel itself be better off with the pollution control equipment in place?

PLANNING AND ORGANIZING FOR SOCIAL ISSUES

Archie Carroll recommends that firms should systematically plan for social issues and organize for social response.⁵ Here are some suggestions for carrying out social planning and organizing.

Planning for Social Issues

Planning for social issues involves social forecasting and social goal setting. These activities entail consideration of social trends and formulation of specific social goals.

Social Forecasting. Kenneth Newgren defines social forecasting as follows;

Social forecasting ... is a systematic process for *identifying* social trends and their underlying attitudes, *analyzing* these social trends for their relevance to the organization, and *integrating* these findings with other forecasts to cover a time period of at least five, and preferably more, years.⁶

Such social forecasting is carried out primarily in large firms. Two approaches are most commonly employed. One is to use one or more futurists who study the future in an attempt to identify social or political trends and analyze their relevance to the firm. The alternative is to hire consultants and use the information they provide.

Executives in many firms, including Bristol-Myers, American Express, and Sears, Roebuck, participate in a program named "Strategic Trend Evaluation Process," or STEP, run by a New York consulting firm. The idea is to make the executives think like futurists. The consulting firm's staff reads periodicals ranging from *Technology Review* to *Motha Jones*. Staff members write abstracts of articles that suggest future trends. Executives consider these abstracts and meet every few months to discuss the issues and trends they have studied. One typical issue was the impact of government cutbacks in support of the arts and social services. Executives discussed how these cutbacks might lead to pressures on companies for support and how firms should respond.

Other firms are using issues managers, individuals much like futurists but concerned with the shorter term, say one to five years. Issues

5. This section is based on A. E. Carroll, *Social Responsibility of Management* (Chicago: Science Research Associates, Inc., 1984).

6. K. E. Newgren, "Social Forecasting: An Overview of Current Business Practices" in A. B. Carroll, ed., *Managing Corporate Social Responsibility* [Boston: Little, Brown and Company, 1977], 170-90.

managers identify social issues and make specific recommendations for company response.

Atlantic Richfield formed an issues management group in the late 1970s, in part because it felt that its more traditional planners had failed to anticipate key energy and environmental developments. The group is very heterogeneous, comprising engineers, marketing managers, lawyers, a former English teacher, and others. The group monitors publications, opinion polls, and think tank reports. It provides middle managers in the company with a daily publication called *Scan* which summarizes important developments. Archie Carroll notes that issues management groups at various firms led to such moves <is removing fluorocarbons from aerosol sprays years before such action was federally mandated, lobbying to head off anticipated tax changes, and introducing nonflammable goods prior to their requirement by the government.

Social Goal Setting. Social goals, like all other goals, should be specific and concrete rather than vague platitudes. As one example, Carroll suggests that the general objective, "To be a good community citizen by supporting community projects" can be replaced by such operational objectives as "To provide ten hours a week released time for each of two executives to serve on the community's Committee on Crime Prevention for two years at a cost of \$18,000 to the company" or "To underwrite the costs of the annual Christmas concert put on by the Boys' Club of Athens at a cost of \$5,000." Specific goals enhance credibility, make success **more** likely, and make appraisal of social performance more feasible.

Organizing for Social Response

Once firms have planned for social action, they must develop appropriate organizational patterns. The specific patterns will depend on industry and environmental characteristics, firm size and visibility, the importance of social issues to the firm, and other matters. Carroll identifies the following structural forms to deal with social issues:

- A The corporate social/public responsibility officer, first appearing on organization charts in the late 1960s and early 1970s.
- A The task force of executives, assigned on a temporary basis to deal with specific or general social issues. Since these are temporary committees, they lack continuity and may lead to hasty response.
- A The permanent committee, giving the social function authority and prominence. This committee may be made up of members of the board of directors or a regular management group.
- A The department, the most formal organizational method. Usually headed by an individual with high organizational status,

such as a vice president for public affairs, it also typically includes a full-time staff working on social issues. The departmental structure provides status, resources, continuity, planning, and professional management.

THE SOCIAL AUDIT

Our discussion so far has focused on the many issues involved with corporate responsibility and on the problems of evaluating the performance of these programs. We have also considered planning and organizing for social performance. One way to think constructively about social issues and problems, as well as to assess the effectiveness of social planning and organizing, is to conduct a social audit.

What Is a Social Audit?

A **social audit** is a step-by-step examination of all the activities comprising a firm's social programs. The firm may evaluate its own programs in terms of goals, and it may identify new programs that it ought to pursue. Goals are then formulated for these new programs. The general aim of the social audit is to make management more aware of the impact of corporate actions on society.

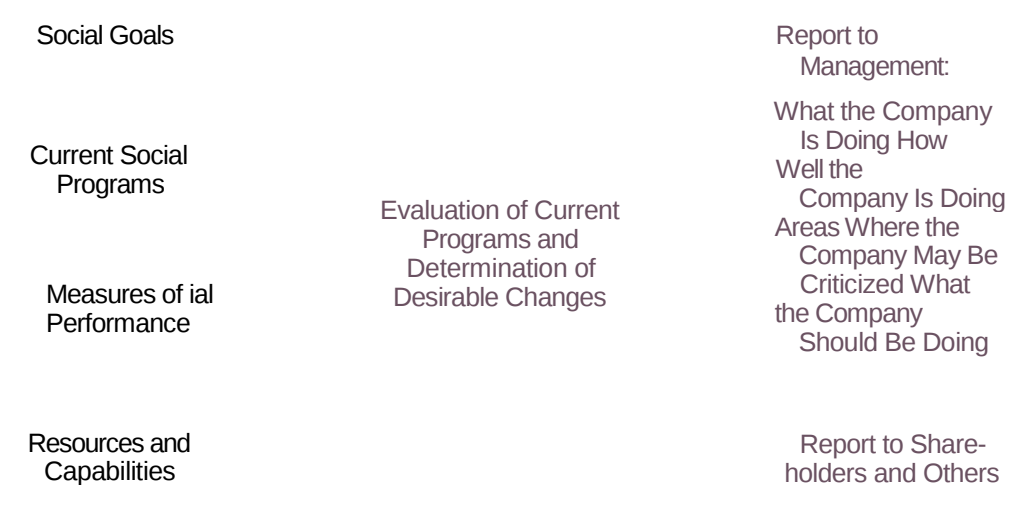
In some countries, social audits are mandatory. In Germany, about 20 of the largest firms now publish regular social reports. In France, all firms with more than 750 employees must publish a social report that includes information on 94 social indicators. Norway also requires a published social report, and many other European countries are considering such legal requirements. Figure 24-4 diagrams the social audit for a company evaluating past activities and considering new ones.

Conducting and Reporting on the Social Audit

Conducting a social audit is not easy. There are many difficult questions to be answered: What activities should be audited? How should each activity be evaluated? How should social performance be assessed? These questions generally have to be answered on a case-by-case basis.

Report to Shareholders. More and more companies are reporting on their social activities to shareholders and others. For example, Atlantic Richfield has published three corporate social reports. They are available to anyone requesting a copy. The most recent report, "Participation III" describes Atlantic Richfield's activities in consumer affairs.

Figure 24-4 THE SOCIAL AUDIT



Source: William H. Cunningham, Ramon J. Aldag, and Christopher M. Swift, *Introduction to Business*. (Cincinnati: South-Western Publishing Co., 1984), p. 54, Reproduced with permission.

human-resources management, occupational and environmental protection, energy conservation, philanthropy, and public-policy advocacy.⁷ The report presents a comprehensive and generally positive picture of the company's social activities.

Independent Critiques. An impressive aspect of the Atlantic Richfield report is that it also includes independent critiques by outside experts. Although quite favorable in regard to most of Atlantic Richfield's social activities, the critiques are often painfully candid. For example, one critique took the company to task for its all-white, all-male board of directors; its funding of memberships for company executives in private clubs discriminating against Jewish people, racial minorities, and women; and its lack of formal corporate social policies. Another critique pointed out the lack of a specific policy governing corporate donations. The company evaluated these criticisms and brought them to the attention of managers. Since publication of "Participation Till" Atlantic Richfield has taken the initial step of adding a woman to its board of directors.

7. N. B. Whalcy, ed., *Participation 111: Atlantic Richfield and Society* (Los Angeles: Atlantic Richfield and Company)

BUSINESS ETHICS

Ethics are principles of morality or rules of conduct. Business ethics are rules about how businesses and their employees ought to behave. Ethical behavior conforms to these rules; unethical behavior violates them.

Ethical Dilemmas

It is easy to say that individuals in organizations should behave ethically. Some behaviors, such as employee theft, are clearly unethical.

It is often very difficult to determine exactly what is or is not ethical. For instance, computer software is protected by copyright laws, but illegal copying of software is a common practice, as discussed in Situation 2. Many people who would quickly condemn such behavior as theft apparently see no ethical problems with such copying.

SITUATION 2

Software Stealing

The nation's biggest companies harbor dens of thieves—at least that's how it looks to the software industry. Illegal copying of software programs has been practiced since the personal computer revolution began. But software companies are particularly irked to find copying going on in their most lucrative market: the big corporation.

So the software companies are getting tough. Industry leader Lotus Development Corp. brought suit against two corporate copiers this year. The industry's trade group will soon start a \$250,000 publicity campaign. And several prominent software companies are working harder on a new technology to make copying harder.

That's all having some results. Some big companies are beginning to realize that software copying is wrong. They are issuing new policies, lecturing employees, keeping records of authorized software users, and even firing workers who violate policies against copying.

Still, few companies have bothered to tell their workers that software copying is theft. "Corporate decision makers may not know that there's somebody downstairs creating one helluva corporate liability" by copying software, says David Sturdevant, director of public communications for the Association of Data Processing Service Organizations. He notes that copyright violations are punishable by fines of up to \$50,000 and a year in jail.

Software companies have long complained about illegal copying. But individual users wink at the practice. Many computer clubs were organized to

save users money by sharing programs. Schools and universities sometimes sponsor "software swap days" where copying is rampant. Hackers delight in devising programs to defeat copy-protection codes that software publishers put on their diskettes to block copying.

Marv Goldschmitt, vice-president, business development at Lotus (whose 1-2-3 program costs \$495) counters the argument that piracy is only a problem when software is overpriced. "Just because you think a Jaguar's overpriced doesn't give you the right to steal it," he says.

Software firms have come up with a variety of approaches to stop illegal copying. Perhaps the most whimsical is that of Mother Jones' Son's Software Corp. Its sales agreement reads that if a buyer copies the program illegally, "Ownership of your eternal soul passes to us, and we have the right to negotiate the sale of said soul." The agreement adds: "Our attorneys will see to it that life on earth, as you know it, is completely ruined."

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Further, we must often face the issue of how to deal with the unethical behavior of others. Figure 24-5 highlights the sorts of hard decisions that must sometimes be made.

Figure 24-5. ETHICAL DILEMMAS

The Wall Street Journal wanted to see how executives and the public responded to ethical dilemmas. At the request of the *Journal*, the Gallup Organization polled a representative national general-public sample of 1,558 adults and a sample of 396 middle-level big-company executives. Here are some of the dilemmas they presented:

Family versus Ethics

Jim, a 56-year-old middle manager with children in college, discovers that the owners of his company are cheating the government out of several thousand dollars a year in taxes. Tim is the only employee who would be in a position to know this. Should Jim report the owners to the Internal Revenue Service at the risk of endangering his own livelihood, or should he disregard the discovery in order to protect his family's livelihood?

The Roundabout Raise

When Joe asks for a raise, his boss praises his work but says the company's rigid budget won't allow any further merit raises for the time being. Instead, the boss suggests that the company "won't look too closely at your expense accounts for a while." Should Joe take this as an authorization to pad his expense account on grounds that he is simply getting the same money he deserves through a different route, or should he refuse this roundabout "raise"?

Sneaking Phone Calls

Helen discovers that another employee regularly makes about \$100 a month worth of personal long-distance telephone calls from an office telephone. Should Helen report the employee to the company or disregard the calls on the grounds that many people make personal calls at the office? What should Helen do if the calls totalled only \$10 a month?

Cover-Up Temptation

Mary discovers that the chemical plant she manages is creating slightly more water pollution in a nearby lake than is legally permitted. Revealing the problem will bring considerable unfavorable publicity to the plant, hurt the lakeside town's resort business, and create a scare in the community. Solving the problem will cost the company well over \$100,000. It is unlikely that outsiders will discover the problem. The violation poses no danger whatever to people. At most, it will endanger a small number of fish. Should Mary reveal the problem despite the cost to the company, or consider the problem as little more than a technicality and disregard it?

The Faked Degree

Bob has done a sound job for over a year. Bob's Boss learns that he got the job by claiming to have a college degree, although in reality he never graduated. Should his boss dismiss him for submitting a fraudulent resume or overlook the false claim since Bob has otherwise proven to be conscientious and honorable; and since making an issue of the degree might ruin Bob's career?

The Overstated Salary

An employer finds that the candidate who is by far the best qualified for a job really earned only \$18,000 a year in his last job, and not the \$28,000 he claimed. Should he hire the candidate anyway, or should he choose someone else even though that person will be considerably less qualified? What action would you suggest if the candidate's real salary were \$25,000, only \$3,000 less than the amount claimed?

Here's how the public and executives responded to these dilemmas:

■ *Family versus Ethics:* 49% of the public; and 52% of executives think Jim should disregard the discovery. About 34% of each group think he should report the owners.,,

▲ *The Roundabout Raise:* 65% of the public and a full 91% of executives rejected the roundabout raise. Only 25% of the public and 7% of executives endorsed it.

▲ *Sneaking Phone Calls:* When the employee is sneaking \$100 a month worth of personal calls, 64% of the public and 76% of executives think Helen should report it. 26% of the public and 19% of managers favor disregarding the calls. But when only \$10 is involved, only 47% of the public and 48% of executives favor reporting the employee. 38% of the public and 47% of executives favor disregarding the calls.

▲ *Cover-Up Temptation:* 63% of the general public and 70% of executives say Mary should reveal the problem. Only 23% of the general

public and 24% of executives think she should disregard it as a cality.

A *The Faked D&pee*: More executives [50%] than suggest overlooking the claim. The general public decisively (66 to 22%) recommends overlooking the false claim.

A *The Overstated Salary*: 63% of the general public recommended hiring the errant applicant when salary was overstated by \$10,000, and only 27% said the employer should hire someone else. 52% of executives would choose somebody else, and 47% would hire the applicant despite the false claim. When the salary was overstated by only \$3,000, 68% of the general public would hire the applicant and 22% wouldn't. 60% of executives, would hire the applicant and 38% wouldn't.

In general, corporate executives seemed to apply suffer standards in ethical dilemmas than did the general public. General citizens were considerably more inclined to condone wrongdoing if there were mitigating circumstances.

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The Demand for Ethical Behavior

Businesses, governments, and the public are all paying more attention to business ethics. The Foreign Corrupt Practices Act of 1977 requires that companies operate ethically. When such conduct is not forthcoming, the government will use all legal means at its disposal to correct the problem.

Bribes and kickbacks have come under particularly close scrutiny lately. A kickback may be seen in the following example:

A retailer hires a market researcher to find a choice location for a new retail store. The retailer does not know that the researcher has previously agreed to recommend the property of a real estate developer in return for a secret percentage of the first year's rental payment on the property.

Bribery is especially a problem in overseas dealings. The Justice Department conducted a three-year criminal investigation of the Lockheed Corporation's overseas payments. Lockheed subsequently pleaded guilty to charges of concealing payoffs to Japanese business and government officials and was fined £647,000. In another instance, Brunswick Corporation admitted to the Securities and Exchange Commission that it had paid bribes to two Latin American countries to win contracts. And the Joseph Schlitz Brewing Company faced a 747-count federal indictment for giving kickbacks and other inducements to beer retailers and

distributors in exchange for their business. It later agreed to pay a \$750,000 penalty in a settlement.

Codes of Ethics

About 80 percent of U.S. companies have a code of ethics. Such codes set forth principles of appropriate behavior. For example, the Bank of America's "Code of Corporate Conduct" includes 77 separate items that detail the responsibilities of the company and its employees. The code prohibits bribes and kickbacks and emphasizes the importance of full disclosure to prevent misconduct. McGraw-Hill, Inc., a publishing house, has a "Code of Business Ethics" guaranteeing the privacy of employee personnel and payroll records.

Factors Influencing Ethical Behavior

Unethical behavior does not occur in a vacuum. Like other behaviors in organizations, it is a function of the situation, reward systems, individual differences, and other factors.

For instance, Barry Staw and Eugene Sz wajkowski found that such ethical violations by firms as price fixing and other illegal competitive relationships were more common when firms faced scarce environments than when those environments were munificent.⁸ That is, difficult financial situations encouraged firms to undertake unethical activity.

Further, Harvey Hegarty and Henry Sims carried out studies to assess causes of unethical behavior.⁹ They used simulations in which subjects played the role of regional sales manager for a large wholesaling firm. They had to deal with the decision of whether to pay kickbacks to purchasing agents. The unethical behavior of accepting kickbacks was related to personality characteristics, rewards and punishments, competition, and organizational policies and statements.

In particular, Hegarty and Sims found that Machiavellians, those with external loci of control, and those with economic or political value orientations tended to engage in more unethical behavior. When subjects felt unethical behaviors would increase their rewards, unethical behavior increased. However, when there was also the possibility of public exposure and a fine, unethical behavior dropped to a level below even that of a no reward or punishment situation. Unethical behavior increased when subjects were in competition. It decreased when a clear statement was issued in favor of ethical behavior by the organization's president or when an ethics objective was assigned by the organization.

8. B. M. Staw and E. Sz wajkowski, "The Scarcity-Munificence Component of Organizational Environments and the Commission of Illegal Acts," *Administrative Science Quarterly* 20 (1975): 345-54.

9. W. H. Hegarty and H. P. Sims, Jr., "Organizational Philosophy, Policies, and Objectives Related to Unethical Decision Behavior: A Laboratory Experiment," *Journal of Applied Psychology* 64 (1979): 331-38.

Encouraging Ethical Behavior

The findings described in the previous paragraph clearly suggest that ethical behavior can be encouraged by organizations. A code of ethics is just a start. It's easy for a company to state ethical principles, but it is quite another thing for employees to take the code seriously. Whether employees do so depends largely on the actions and attitudes of top management. Suppose that management tells employees that bribing overseas clients is against company policy. Suppose further that winning contracts with overseas clients is of primary importance to the business. A few bribes here and there, a few big new contracts, and top management turns the other way. Do you think the company's official policy against bribery will make much of a difference?

Whistleblowers. Consider now the case of an employee who learns that his or her company engages in bribery or some other illegal activity. The employee can keep quiet, report the incident to top management, or even tell the press about the incident. By going outside the company, the employee is "blowing the whistle." **Whistleblowers** may find their jobs and careers are in jeopardy.¹⁰

As an example of a whistleblower, Kermit Vandivier was a technical writer and data analyst at B. F. Goodrich in the 1960s. He knew that someone had tampered with the test results for an aircraft brake. He tried to get his superiors to take action to prevent an air disaster but was told to keep quiet. After finding that he could be held legally responsible in a conspiracy to defraud, Vandivier went to the Federal Bureau of Investigation and worked undercover. The incident led to a new Department of Defense policy on contractor inspection, testing, and reporting.

What Should the Company Do? If a firm is serious about maintaining ethical behavior, it must take concrete actions such as those shown in Figure 24-6.

First, a company needs to make its code of ethics evident—but only about half of all companies do. Can employees care much about a code that they may never have seen? In addition, companies can make sure that the codes specify procedures for handling violations and that these procedures are fairly enforced. The codes should be revised as the company's product line or competitive practices change.

A company can encourage ethical behavior with other positive actions. IBM has had a "Speak Up!" program for more than 20 years. This program allows an employee to appeal any supervisory action and to get a mailed response to the appeal without having the employee's name communicated to the supervisor. A meeting between the employee and man-

10. D. D. Cook, "Whistleblowers: Friend or foe?" *Industry Week* (1981) 51-54, 56.

Figure 24-6

WAYS TO ENCOURAGE ETHICAL BEHAVIOR

agement is arranged if necessary. Unfortunately, few companies have such internal programs for resolving ethical conflicts.

Other corporations have review committees made up of people specially trained to deal with ethical issues. These committees are composed of people from both inside and outside the company. The committee's role is to advise directors on sensitive ethical matters.

Ethics training is a part of some management development programs. The training usually includes discussions among the program participants of real problems that they have faced in their work. Alternative ways of dealing with each problem are then explored.

IMPLICATIONS FOR MANAGEMENT

As a manager, you will often be faced with difficult decisions concerning social responsibility and business ethics. These decisions will often require you to balance economic and social concerns. Give some careful thought to your views concerning social responsibility. Do you most agree with the classical, demander, constrainer, or foreboder views? What are the bases for your opinions?

When considering social actions, you will inevitably encounter tradeoffs. The socially "correct" decision may be costly and unpopular. Pursuing actions that you consider to be socially responsible may lead others to conclude that you don't care about the "bottom line." Take some time to think through your views concerning social responsibility. You may then be better able to deal with hard social tradeoffs in a consistent, reasoned way.

In making decisions about social issues, give some thought to possible costs and benefits of alternative actions. You may conclude that some actions could be better handled by others, or that costs far outweigh benefits. You may decide that the actions should definitely be undertaken, but that costs will somehow have to be passed along. The purpose of such a balancing should be not to seek ways to avoid social responsibilities, but rather to best match social actions to the particular strengths of the firm.

Like other management activities, social issues management requires planning, organizing, and control. Forward-thinking managers carry out social forecasting and set specific social goals. They choose appropriate organizational patterns and conduct systematic social audits. These activities will almost certainly become more important in the future.

While some ethical decisions seem clear cut, others are in gray areas. Many people who consider themselves ethical routinely duplicate copyrighted computer software, take home office supplies, and make^per-dunaiVai'i's on company pfiones. Questions of ethics also loom large when unethical behavior is "standard business practice." A recent investigation of kickbacks in the oil industry found fraud to be flourishing at all levels, *fe\$sr tt&? #til\$&a£ Co' are executive suite. Motorboats, barbecue pits, prostitutes, cocaine, and money were discovered to be routinely used to get contracts. One operator said, "Any little oil service business who tells you he isn't paying kickbacks is lying. You got to buy your business to stay alive."¹¹ How would you behave in such a situation?

Difficult questions also arise when you are aware that others are behaving unethically. Should you notify management, become a whistleblower, or simply keep quiet? Give some thought to these issues before you have to face them.

Certainly, if you are serious about encouraging ethical behavior among employees, you should try to create a conducive climate. This would require publicizing the firm's commitment to ethics as well as the rewards and punishments associated with ethical and unethical behavior. It would demand that you avoid creating situations where unethical behavior is seen as the route to success. You may also want to encourage ethics training, ethics review committees, and company programs to resolve ethical dilemmas.

KEY TERMS
AND
CONCEPTS



- | | |
|-----------------|----------------------------|
| business ethics | forebode rs |
| classical view | futurists |
| code of ethics | invisible hand |
| constrainers | iron law of responsibility |
| demanders | issues managers |

11. *The Wall Street JaamaJ* (January IS, I985&. 1.

social audit
social forecasting

social responsibility
whistleblowers

REVIEW QUESTIONS

1. What is meant by social responsibility? Give examples of socially responsible actions.
2. Discuss the classical view of social responsibility and cite criticisms of the view.
3. Define the constrainer, foreboder, and demander viewpoints.
4. Identify five parties to whom business may have social responsibilities.
5. Cite some costs and benefits of social responsibility from the point of view of shareholders.
6. Present guidelines for planning social actions.
7. Identify different ways of organizing for social actions.
8. Describe the social audit.
9. Define business ethics and cite four examples of potentially unethical behavior.
10. How can firms encourage ethical behavior by their employees?
11. What is a whistleblower?

CASE 24 ▲ Genetic Testing of Workers

The expanding science of genetics is beginning to touch the American workplace. The prospect is full of promise and peril.

The promise is bright: Genetic screening of employees could identify those with special susceptibility to a disease and steer them away from work where dust or fumes might trigger it. Testing that found chromosomal damage among workers in a certain occupation would give an early warning of danger. Employers, and society, might save millions in medical costs.

That is one way it might work. Another is that employers, able to exclude the most vulnerable workers, might avoid cleaning up hazardous workplaces. Certain employees, labeled "susceptible," might find their careers and their health insurance lopped off. They might find their privacy invaded, or their race singled out. The employers might find themselves sued.

Employers have already done some genetic testing. A 1982 survey found 18 major U.S. companies that either were doing tests or had in the past. Another 59 thought then that they might begin within five years.

But now, owing partly to current scientific limitations and partly to the flak some companies drew, very little of such testing is being done. Many experts welcome the pause as a chance for people to think about the issues involved.

Genetic testing of workers comes in two varieties: screening and monitoring. They are distinct both in what they set out to do and in the attitudes toward them.

Screening is the one-time analysis of DNA taken from blood or other body fluids, aimed at finding genetic "markers" indicating that a person may be especially susceptible to harm from a particular substance. This is the procedure in which critics see the

greatest social dangers.

Genetic monitoring, by contrast, involves periodically testing groups of employees to see whether they are showing any alarming chromosomal abnormalities, changes which might have arisen from their environment. Monitoring has the approval of many of the labor leaders and others who oppose screening. In fact, they would very much like to see more genetic monitoring of industrial employees to provide evidence of workplaces in need of sanitizing.

Source: Reprinted by permission of *The Wall Street Journal*, C¹ Dow Jones & Company, Inc. [February 24, 1986]. All Rights Reserved. For more on this issue, see Judy D. Olian, "Genetic Screening for Employment Purposes" *Personnel Psychology* (1984); 423-438; and Fern Schurner Chapman, "The Ruckus Over Medical Testing," *Fortune* [August 19, 1985], 57-62.

1. Do you feel that genetic screening is ethical? Genetic monitoring? In each case, justify your position.
2. Do you see genetic testing as an invasion of privacy? If so, do you think concerns about privacy are overridden by legitimate need?
3. If genetic monitoring shows that an employee is especially susceptible to a workplace substance, who should decide whether the employee should be transferred, the employer or the employee? Why?
4. What sorts of policies or practices do you think companies should employ when deciding whether or not to employ genetic testing?

PART 7 CASE A U.S. Firms Operating in South Africa Debate Whether to Stay or Go

The Rev. Leon Sullivan towers over the lecture at a closed session with a few hundred corporate executives gathered in a plush hotel ballroom. "Let us pray," he intones.

After a gentle opening prayer, Mr. Sullivan, a black Baptist minister from Philadelphia, launches into his hard sell. The executives, most of them white, are from some 200 U.S. companies that subscribe to his so-called Sullivan Principles, which he drafted nearly a decade ago to promote fair treatment of South Africa's black workers. The Sullivan Principles call for desegregated workplaces, equal employment practices, equal pay, training for nonwhites, aggressive promotion of blacks, and spending on housing, education, and other social services. U.S. companies fill out inch-thick forms once a year and pay several thousand dollars to be rated by Arthur D. Little Inc. The companies are divided into nine categories and

subcategories depending on how much they spend for social services in South Africa.

But following the code is no longer enough. Urging the executives to violate apartheid laws, Mr. Sullivan tells them to "foster corporate civil disobedience to the fullest extent possible." Publicly rebuke the South African government, he continues. Bring blacks into the top ranks of management and the anti-apartheid campaign.

"And take the heat," Mr. Sullivan says, his voice building. "And take the heat! AND TAKE THE HEAT!" When the sermon ends to unenthusiastic applause, Mr. Sullivan says chidingly, "That's a hand that says, 'We don't believe it, but we'll listen anyway.'"

The executives' tepid response partly reflects their frustration. They simply don't know what to do. U.S. companies are paralysed by the South Africa issue. Publicly,

they continue to call apartheid morally repugnant, and they argue that staying put is the only way they can work for change. But privately, a growing number of U.S. companies are losing hope and preparing to pull out.

"I don't know of a single company down there that isn't looking at contingency plans to leave," says a senior executive with a big U.S. manufacturer that operates in South Africa.

Some 260 U.S. companies do business in South Africa—50 of the 100 largest industrial corporations, including General Motors Corp., Mobil Corp., International Business Machines Corp., and Coca-Cola Co. In most cases, the South African business represents less than 1 percent of their sales, earnings, and assets. But it occupies a relatively large chunk of executives' time because of what some call "the hassle factor" of doing business there.

It is a no-win situation. The deteriorating economy has devastated most companies' profits in South Africa. The black population grows ever more hostile to U.S. companies' presence. The Sullivan Principles, which have provided a moral framework for doing business in a repressive state, are under attack as ineffective. Companies are viewed as doing too little too late. Staying in South Africa will require them to spend many more millions than they ever expected and plunge them more deeply into South Africa's messy internal affairs.

"Congress would attack U.S. business for interfering in a sovereign state if we did this anywhere else—but South Africa is different," Sal G. Marzullo, chairman of a U.S. business group, tells executives in the closed-door Sullivan meeting, unaware of a reporter's presence. "It isn't money anymore. No one makes much money there anymore, you know that. It's now a moral obligation to see this out."

But if they leave for business reasons, companies may look hypocritical after a decade

of arguing that their presence betters the lives of South Africa's 23 million blacks. A mass corporate exit could set an unwanted precedent for other countries with repressive regimes. It would also mean abandoning employees, customers, and millions in assets. Companies from other countries are already winning business in South Africa by emphasizing the chances of a U.S. exodus.

Even Mr. Sullivan, until now a moderate ally of the companies in their efforts to remain in South Africa, has turned on them. Many executives are uncomfortable with his call for violating apartheid laws. Even worse is his deadline: Apartheid must end and blacks must have the vote in less than a year—an extremely unlikely eventuality—or he will call on all U.S. firms there to close down and leave. Immediately.

Events since Mr. Sullivan's recent meeting in New York have increased the anguish and ambivalence of American businesses. The South African government grows more repressive. The Reagan administration reconsiders its policy, and the U.S. House of Representatives calls for a total business withdrawal. Meanwhile, South Africa's violence spreads, and has begun spilling over into white business areas.

Companies, not surprisingly, are preparing for the worst. The senior executive who says many companies are devising contingency plans for leaving also describes an increasing sense of hopelessness that anything can really be done. "That is terribly frustrating," he says, "for people who like to think that they can solve any kind of problem if they just tend to it." Many executives would be relieved if the Reagan administration simply ordered a total withdrawal, he adds.

U.S. companies' pessimism increased as their bankers soured on South Africa's future when the government declared a state of emergency in July, 1985. Chase Manhattan Corp. was the first major bank to freeze credit lines, totaling perhaps \$500 million.

Other major banks then implemented credit crackdowns of their own. Now, 37 major banks prohibit all lending to the South African private sector, the Investor Responsibility Research Center says.

Barring a bloodbath in South Africa, U.S. firms probably won't suddenly shut down en masse and all leave at once. Instead, predicts one official, U.S. investment will endure "a long, continuing, slow decline." Already, though, more companies are tiring of the political heat and financial losses. Fifteen left in the first six months of 1986, including General Electric Co. and GTE Corp.; 38 mostly small firms withdrew in 1985, up sharply from seven in 1984, according to the research center. IBM and Xerox Corp. both have expressed increasing pessimism recently, and they may become the next major companies to shut down if conditions continue to worsen.

U.S. business ties to South Africa remain pervasive. Some 10,000 firms trade with South African companies, if not investing there directly. The research center says U.S. firms account for 20 percent of all foreign investment in South Africa and hold one-half of the local computer market, one-half of the petroleum industry, and one-third of the automobile market. South African business, however, accounts for only 1 percent of the U.S. companies' total foreign investment.

For years, business had two major justifications for staying in South Africa—pure financial returns and the goal of helping the oppressed. Neither works anymore. It is widely recognized that the U.S. presence has failed to improve conditions beyond the workplace and beyond the 96,000 people [1 percent of the work force] that U.S. companies employ.

South Africa's economy provides little hope for the U.S. companies, as it has lost 250,000 jobs in three years, and the local currency has lost 35 percent of its value in the last five months alone, relative to the

dollar. Meanwhile, companies are losing sales in the U.S. as more cities and counties (20 so far) impose product boycotts and service-contract bans on firms dealing in South Africa.

U.S. companies can't just pick up and leave. Besides fearing any precedent that might be set by caving in to political pressures, they have \$1.8 billion in South African assets at risk [down sharply from \$2.6 billion in 1981]. Also at stake is the livelihood of U.S. companies' employees—especially 47,000 blacks or 0.8 percent of South Africa's 6.1 million black workers. The interdependence of U.S. units there makes it even tougher; a company won't leave if the companies it serves aren't shutting down as well.

In cautious statements that may be clearing a way out, IBM says it will stay so long as it can practice its principles of fairness, turn a profit, and be "together with others a force for change." The outlook seems bleak for all three criteria. IBM recently reduced its work force in South Africa by about 300 because of declining business. But leaving would mean laying off its remaining 1,600 workers [including fewer than 200 blacks], marring a 72-year record of never having had a real layoff.

By adopting the Sullivan code, now followed by 196 U.S. companies, businesses have let the issue move to moral rather than purely business grounds. Now the principles—and businesses' lukewarm dedication to them—are under attack, and the companies are criticized for not doing enough.

At the recent New York meeting, black South African leaders told executives the Sullivan Code has a "tattered image," that enforcement has been placed in "malicious hands," and that the tenets have "failed dismally to reach their original objectives."

The code is unknown to employees and the black population because companies don't tell people about it. Embarrassingly

few blacks are involved in the Sullivan process, much less in top management of the companies. Mr. Sullivan has called on U.S. subsidiaries to fill 50 percent of their open management positions with blacks, but a study says the actual rate is only 14 percent. Managers of five companies say they still work in segregated facilities.

Since 1977, Sullivan-signec companies have spent a combined total of \$158 million on housing, health, and education—only 76 cents per person each year for 23 million blacks, and even less if other non-white groups are counted. The spending now is about \$20 million a year.

Some question whether any spending level can improve the lot of South Africa's blacks, win their support, and ensure good relations with a post-apartheid government. "It's a waste of money," says one executive who recently visited the country. "There is no appreciation in the black community any longer for the money spent. (Black leaders! look at it as dirty money/" He says companies won't boost their social spending with the economy in shambles and with Mr. Sullivan threatening an embargo next year. "Forget it—it ain't gonna happen."

Nor do U.S. companies hold much hope for pressuring the South African government in response to Mr. Sullivan's calls for blatant civil disobedience. IBM says it "quietly" violates apartheid laws when needed, but others say the civil disobedience he urges will get companies thrown out.

It is uncertain what companies will do if Mr. Sullivan holds to his deadline. He may be bluffing: A mass withdrawal would

render his principles irrelevant and scotch ten years of hard work. But others say he isn't. Mr. Sullivan, at his private session with executives recently, said that by year-end he will have specific plans ready for a pullout. "We will meet again in December," the minister told the executives. "And we will see what we will see."

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1. What are some of the sorts of risks of international operations that are reflected in this case?
2. In what ways is the decision of whether to terminate operations different for a firm operating in a foreign country than for one operating in the United States?
3. Analyze the situation facing U.S. firms in South Africa from the classical perspective on social responsibility. Then consider how individuals taking the constrictor, foreboder, and demander views, respectively, would view this situation.
4. Make a list of the parties (shareholders, employees, customers, local communities, etc.) who are affected by U.S. firms' decision of whether to withdraw from South Africa. For each of those parties, make a list of any positive and negative consequences of withdrawal.
5. If you were currently faced with the decision of whether to withdraw a firm from South Africa, how would you respond? Why?

