OL-326-J6162 Social Environment of Business 20EW6

Module Overview

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Introduction

Corporate social responsibility (CSR) refers to a business's place in society. How does the company interact with stakeholders? Who are the key stakeholders? What is the relationship between profits and stakeholders and do companies have to choose between them? This course explores a number of critical issues addressing how businesses balance the needs of their owners/shareholders and greater society. After an introduction to CSR and stakeholders, students will examine the moral place of corporations. There are two competing thoughts on this role. The first is American economist Milton Friedman's (1970) view that the moral place of a corporation is to make a profit. Friedman believes that the needs of shareholders should take priority over social responsibility, and he has a number of compelling arguments to support this view. On the other hand, Edward Freeman, creator of the stakeholder theory, believes that companies have a responsibility to all stakeholders (Freeman & McVea, 2001). In his view, business and society are intertwined and, therefore, companies must balance all stakeholders' needs.

After discussing the role of companies, it is necessary to address the issue of corporate governance, which relates to how businesses make decisions. Oftentimes, corporate governance starts with a discussion about the board of directors and its role. Many years ago, a board of directors consisted of board members who had a good relationship with the chief executive officer (CEO). These relationships brought into question the independence of the board of directors—should the board be composed of "yes-men" or independent members who could play a strong governance role to ensure that company executives make decisions in the best interest of shareholders and not in the best interest of management? Beyond the board of directors, however, corporate governance also addresses the role that shareholders, employees, customers, and other governance also addresses the role that shareholders, employees, customers, and other stakeholders can play in holding company executives accountable for decisions. At times, shareholders, customers, and/or employees have taken a stand against company management and forced a change of direction.

The next important conversation surrounds business ethics and the role they play in corporate decision making. Ethics occur at the individual and organization levels. One thought is that companies operate at various ethical levels. The first level is preconventional, in which ethics are equal to following the law. The second level isconventional, where business is ethically required to at least meet the expectations of society, even if those expectations are higher than current laws. The highest level of ethics is post-conventional, where ethics are internalized and become part of the cultural fabric of the organization. There are also various ethical principles that guide a person or organization in making ethical decisions. Companies usually do not struggle with making decisions when there is a clear right or wrong choice. A decision in which a company is choosing between two “good” decisions is not really a moral issue as no one is being harmed by the decision. Where companies struggle is when they must decide between two or more choices that will have a negative impact on one or more stakeholders. Does a company lay off workers to protect the interest of shareholders, or does it retain all of its employees with the possible likelihood of bankruptcy, hurting the shareholders? These are difficult decisions for companies to make, and they illustrate the ways in which business ethics can play a key part in decision making.

Mistakes will happen and companies will have to engage in crisis management. There are positive ways to manage a crisis, and there are things that companies can do to make the crisis worse. Crisis management often comes down to one simple principle—transparency. Companies that engage early and are very transparent about crises will end up having fewer long-term issues. In the early 1980s, an individual tampered with Johnson & Johnson’s number one product, Extra Strength Tylenol, resulting in a couple of deaths due to cyanide poisoning. James Burke, CEO of Johnson & Johnson (Murphy & Enderle, 1995), quickly moved to assure customers that the company would do the right thing and took full responsibility for the poisonings, even though it was not at fault. Investigations quickly pointed to a lone person who had tampered with the packaging; however, James Burke called for an immediate recall of all Tylenol products, then relaunched its product after customers were confident that the issue was not Johnson & Johnson. The company was open and transparent about what it knew and what it did not know. Johnson & Johnson managed the crisis with transparency and survived. Companies that have a crisis and struggle over the long term tend to have the appearance of covering up what happened and not accepting responsibility. Following the discussion of crisis management, the course moves to a conversation regarding stakeholders. With the framework for how companies make decisions in place; it is important to delve into various stakeholders to understand their perspective. The last three modules will focus on employees, customers, communities, and special interest groups. These stakeholders are impacted by business decisions, and, in turn, each of these stakeholders can impact the business. Customers will frequently boycott a company because of a particular decision it has made. Nike was subject to boycotts from customers when it was discovered that the company was using child labor and had poor labor conditions in its outsourced production factories in Asia. Nike had to change its position(Seagrove & Welsh, 2004) and more actively engage its supplier base to ensure the suppliers were meeting the company's standards. Nike could not ignore the issue and made a change in its labor practices when stakeholders demanded it and also when there was a negative economic impact. Stakeholders can positively or negatively impact business decisions, and if enough customers, employees, communities, and special interest groups come together, they can impact the business decisions being made.

Social Responsibility

What responsibilities do corporations have beyond making a profit for their stockholders? How about a corporation that abides by the laws and follows the regulations set forth by third-party agencies or the government? If a corporation is aiming to maximize its profits legally, should society expect more from that corporation? Corporations are not legally obligated to be socially responsible. Therefore, what motive does a corporation have to go above and beyond its economic function as a business entity? How do students feel about social responsibility? Would this change if they were business owners? The resources compiled for this module are aimed at helping students critically evaluate and answer these questions and more.

The concept of CSR is not new; however, it has received much more attention over the last few decades. For many years, corporations were expected to make as much money as possible without breaking any laws. If a company went above and beyond expected and made some community donations, it accomplished all that was required. The idea of

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