BUSINESS and SOCIETY

A Strategic Approach to Social Responsibility & Ethics

Eighth Edition

Ferrell | Thorne | Ferrell

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PREFACE

This edition of *Business and Society: A Strategic Approach to Social Responsibility* has been thoroughly updated to capture dynamic changes, new challenges, and evolving opportunities. We were one of the first business and society textbooks to use a strategic framework that integrates business and society into organizational strategies, and now we are pleased to introduce our eighth edition. Today in corporate America, social responsibility and the environmental, social, and governance (ESG) framework are major considerations in strategic planning. Most boards of directors face issues related to sustainability, legal responsibilities, employee well-being, consumer protection, corporate governance, philanthropy, as well as emerging social issues. Social responsibility has been linked to financial performance, and business and society courses are as important as other functional areas in preparing students for their careers. Investors have turned to ESG as a way to measure and compare social responsibility outcomes.

This edition also explores the impact of the COVID-19 pandemic on business and society. Social responsibility found itself in the spotlight during the global health crisis which was characterized by mass layoffs, supply chain disruptions, and worker safety issues. As the world settled into a new normal, unhappy, low paid, and underemployed workers resigned in record numbers in a movement that has become known as the Great Resignation or the Big Quit. We explore how this trend along with the work from home trend has reshaped working America, creating new challenges and opportunities.

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 eighth 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, describing best practices related to social responsibility, and exploring ESG trends. 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.

We also address how technology, including artificial intelligence (AI) and its enablers, such as blockchain, drones, and robotics, is impacting the world we live in. AI is rapidly changing business as we know it and raises many ethical concerns about how the technology is used. For example, without ethical decision-making abilities and parameters, AI could result in accidental or intentional discrimination. Businesses must establish checks and balances to make public safety and security a priority. Additionally, AI is quickly changing the workforce as more automated tasks are performed by robots and drones. We address all of these advancements in technology and the benefits and threats they bring.

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 eighth 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 will not be just critics of business.

Important Changes to the Eighth Edition

The eighth edition has been revised to include new examples, vignettes, and cases. The full-color design is engaging and helps the student better understand the visual supports in the book. 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. New topics discussed include the environmental, social, and governance (ESG) framework. supply chain disruptions, diversity, equity, and inclusion (DEI), the Great Resignation and other employment trends, food security, and supplier diversity.

Opening cases at the start of each chapter address a variety of issues related to the chapter content, including corporate activism, diversity, equity, and inclusion, and lobbying. Companies featured in these cases include Airbus, Amazon, Omaze, and Microsoft. Additional real-world examples of corporate social responsibility are provided in the Ethical Responsibilities and The Earth in Balance boxed readings. The Ethical Responsibilities boxed readings include ethical challenges in different areas of business, including human resources, and technology. Topics discussed in these vignettes include corporate culture, ethics, and technology. The Earth in the Balance boxed readings focus on social responsibility related to sustainability issues. These vignettes discuss green initiatives at companies such as Seventh Generation and Supplant.

The Responsible Business Debate exercise at the end of each chapter introduces a business-related 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 ESG disclosure regulation, drug pricing, and misleading product labels.

We have provided 15 case studies at the back of the book for use as assignments and for class discussion. All of the cases are new or significantly updated. They include Spotify and social responsibility, Tesla and sustainable energy, and Johnson & Johnson and the opioid epidemic.

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, 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 strategic focus for fulfilling economic, legal, ethical, and philanthropic responsibilities.* To gain the benefits of social responsibility, effective and mutually beneficial relationships must be developed with customers, employees, investors, the government, communities, 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.

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. 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. 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, "Business, Government, and Regulation," and Chapter 5, "The Impact of Business on Government and the Political Environment," explore 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. Chapter 5 also examines how businesses can participate in public policy to influence government. A strategic approach for legal compliance, based on the Federal Sentencing Guidelines for Organizations, is also provided.

Chapter 6, "Business Ethics and Ethical Decision-Making," and Chapter 7, "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 8, "Employee Relations," and Chapter 9, "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 businesses.

Chapter 10, "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.

Chapter 11, "Technology Issues," covers 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. This chapter explores the ethical concerns raised by artificial intelligence and its enablers such as big data, blockchain, drones, and robotics. 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 12, "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, food security, 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 13, "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.

Features

Chapter Opening Cases and Real Company 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 readings 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 6) discusses the dilemma faced by an employee who discovers a colleague is recording videos for social media platform TikTok while at work. At the end of the exercise, students must consider issues such as time theft, misuse of social media, and diversity.

Debate issues are also 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 the advantages and disadvantages surrounding various 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 2022. 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: Business Ethics Put to the Test During COVID-19 Pandemic.** This case discusses the challenges and opportunities created by the COVID-19 pandemic which upended the global economy. How companies behaved and treated stakeholders during the pandemic has had lasting effects, and supply chains and the work environment have been permanently altered.
>
> **Case 2: Social Responsibility Now Streaming on Spotify.** This case explores how Spotify, the world's most popular audio streaming service, has integrated social responsibility into every part of its business. It describes Spotify's business model and how the company changed the integrity of the music industry.

Case 3: Tesla Accelerates the Transition to Sustainable Energy. Tesla got its start as an electric vehicle (EV) company but has since branched out to other forms of renewable energy technologies. This case explores ethical issues the company has faced in addition to how the company is accelerating the world toward sustainable energy.

Case 4: A Bitter Pill for Johnson & Johnson. This case looks at 130-year-old pharmaceutical company Johnson & Johnson. While the company has won numerous awards for strong ethical business practices, it has attracted criticism for its role in the opioid epidemic.

Case 5: Chevron Puts More Energy Into Sustainability. This case examines Chevron's expansion into clean energy, including hydrogen, renewable natural gas, and carbon capture and storage. The case also addresses criticism that oil giant Chevron is not changing its business fast enough to better the planet.

Case 6: Uber's Crash Course in Controversy. This case discusses the success of Uber and the regulatory challenges they face as they operate globally. One of the biggest controversies relates to whether or not Uber drivers are contract workers or employees. This has led to several lawsuits against the company, challenging the company's business model.

Case 7: Home Depot Builds Up Stakeholder Relationships. Home Depot has implemented a number of initiatives to improve their ethical reputation with stakeholders. Some initiatives include their diversity supplier program, their use of wood certified by the Forest Stewardship Council, and their philanthropic involvement with Habitat for Humanity. Above all, Home Depot has adopted a stakeholder orientation that considers how they can best meet the needs of their various stakeholders.

Case 8: Big-Box Retailer Walmart Sets Big ESG Goals. This case examines the ups and downs of retail giant Walmart. This case explores how Walmart affects the communities in which it operates and discusses supplier relations. Additionally, it covers unionization efforts by employees and a large-scale bribery scandal.

Case 9: Google Searches for Solutions to Privacy Issues. This case describes Google's path to success, their product mix, and their company culture. It dives deep into the ongoing data privacy concerns Google has created as well as the legal trouble the company faces worldwide.

Case 10: Wells Fargo Banks on Recovery. This case discusses what mistakes Wells Fargo made that led to the creation of more than 3.5 million fake customer accounts. The case also explores the company's struggle to regain the trust of stakeholders.

Case 11: Starbucks Serves Up Its Social Responsibility Blend. This case examines Starbucks' foundation for a socially responsible culture. It 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 12: TOMS Kicks Out the One for One Model. TOMS is a for-profit business with a large philanthropic component. This case examines the One for One model and the movement TOMS created and why the company has abandoned this business model.

Case 13: Apple Bites Into Ethics. This case examines Apple's history and ethics. The case considers Apple's continued innovation and efforts to stay ahead of the pack. This case also explores privacy concerns and antitrust issues faced by the tech giant.

Case 14: From the Outside In: Corporate Social Responsibility at Patagonia. Patagonia has integrated core beliefs and values into every product they produce and is known for their innovative designs, exceptional quality, and environmental ingenuity. This case examines Patagonia's unique promotion strategies and how their corporate culture aligns with their values.

Case 15: Herbalife Nutrition: Managing Risks and Achieving Success. This case considers the accusations levied against Herbalife by activist investor William Ackman charging Herbalife's business model as being a pyramid scheme. It also highlights the difference between a pyramid scheme and a multilevel marketing compensation model and applies this distinction to Herbalife's business model.

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.

Supplements

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 true-false 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.

The book is also available with *CourseBank*, a pre-built online course of assets and auto-graded assignments that easily integrates with Blackboard, Canvas, D2L, Moodle, or any other LMS.

Authors' Website

O. C. Ferrell and Linda Ferrell have established a teaching resource website with the Center for Ethical Organizational Cultures at Auburn University's Raymond J. Harbert College of Business. Their publicly accessible website contains original cases, debate issues, and role-play simulations 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 https://harbert.auburn.edu/research-faculty/centers/center-for-ethical-organizational-cultures/.

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SOCIAL RESPONSIBILITY FRAMEWORK

Chapter Objectives

Define the concept of social responsibility

Trace the development of social responsibility

Examine the global nature of social responsibility

Discuss the benefits of social responsibility

Introduce a framework for understanding social responsibility

Corporate Activism Is in Style at Patagonia

Patagonia is more than just an outdoor clothing and gear company. Founded in 1973 by Yvon Chouinard, the company is a leader in corporate social responsibility. Patagonia has four core values that reflect its business: build the best product, cause no unnecessary harm, use business to protect nature, and do not be bound by convention. Patagonia has proven time and time again that strong ethics and environmental consciousness can pay off in the long run.

Patagonia has been fighting for what its leaders believe to be the right thing since before "corporate activism" or "conscious capitalism" had names. For example, in 1990, the company donated to Planned Parenthood while many people said they would boycott the brand and picket at its stores. Instead of appeasing the public, the company doubled down, donating an additional $5 to Planned Parenthood for every complaint its customer service representatives received. The company's sales were not harmed. Now more than ever before, consumers demand more action and transparency from their favorite companies, pushing more businesses to take corporate social responsibility (CSR) seriously. Patagonia, which has long been ahead of the pack, is considered a leader in CSR.

For the better part of its 50-year history, Patagonia has focused on environmental issues. For example, Chouinard helped start the 1% for the Planet movement. Participants donate 1 percent of their sales to environmental causes. The alliance has more than 5,000 business members and is popular worldwide, demonstrating that consumers reward ethical behavior. But now, as the political environment has become increasingly volatile, Patagonia has pushed further into political activism. For example, the company donated $1 million to fight restrictive voting laws in Georgia and stopped advertising on Facebook and Instagram to protest their spread of misinformation and hate speech. While these actions turned away many customers, the company continues to enjoy revenue of more than $1 billion annually.

Many companies hesitate to take a stand for fear of losing valuable customers, but Patagonia has no fear. “It’s worth losing a few customers. We always gain more when we take one of these positions,” spokesperson Corley Kenna said to the *Los Angeles Times*. In reality, many of the people boycotting the brand were never Patagonia customers to begin with, so the “lost sales” do not hurt the company but rather serve as free publicity, attracting new customers that share the same values as Patagonia.

Patagonia has no plans to rein in its do-gooder mentality. Greenhouse gas emissions, renewable energy, soil health, recycling, and fair wages are just a few of the causes the apparel company is actively addressing. Customer and shareholder loyalty continue to be strong for the company due to its ethical values and actions.[1]

Businesses today must cope with challenging decisions related to their interface with society. Consumers and other stakeholders 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. Social responsibility includes an organization’s obligation to maximize its positive impact and minimize its negative impact on society. Research has concluded that a clear majority (86 percent) of employees prefer to support or work for companies that care about the same issues they do. Social responsibility actions are often quite visible and discoverable, unlike other types of actions that companies take. 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 Patagonia, 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 high-level management, buy-in from employees, and good relationships across the community, industry, market, and government. Companies must plan, allocate, and use resources properly 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 in 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 concepts that 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 concepts 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 often rewarded with customer satisfaction, employee dedication, investor loyalty, strong relationships in the community, positive news and social media reports, 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 from core business practice. For example, Meta, Facebook's parent company, is one organization that constantly finds itself in controversy for failing to protect stakeholder interests. In one scandal, a whisteblower shared documents with the media and law enforcement that suggested the social media giant deceived the public and investors about its ability to manage hate speech and misinformation.[2] The goal is to prevent these negative outcomes in the future.

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license to operate

permission to conduct a business activity, subject to regulation by the licensing authority

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A large multinational corporation may be faced with protestors who voice their disdain publicly. For example, Ben & Jerry's, a subsidiary of Unilever, came under fire for halting the sale of its products in Israeli-occupied territories. In response, a pro-Israel group launched a $500,000 billboard ad campaign criticizing the company, and the state of Arizona sold off $93 million in Unilever bonds.[3] Whether the public attacks are physical or virtual, companies often spend significant resources in explaining and defending their business decisions.

Finally, a company engaged in alleged deceptive practices may face formal investigation by a government agency and spend years defending itself. In many cases, these strategies have proved unsuccessful and led to significant penalties, oversight and monitoring agreements, investor lawsuits, and new regulations for the company's entire industry. In one example, LendingClub Corporation, an online lender, paid $18 million to settle a three-year battle with the Federal Trade Commission (FTC), which said the company deceived customers about hidden fees and the application process. According to the FTC's Bureau of Consumer Protection, business practices such as these harm both consumers and competitors that play by the rules.[4]

Businesses today are expected to look beyond their 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.[5] Therefore, responsible conduct and policies yield significant benefits to society, as well as to shareholders and other investors. While the media provide 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 to emphasize seven main areas: social issues, consumer protection, sustainability, corporate governance, philanthropy, legal responsibilities, and employee well-being.

We identify seven issues within social responsibility. First, social issues are linked with the idea of **common good**. The common good is associated with the development of social conditions that allow 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.

common good

the development of social conditions that allow for societal welfare and fulfillment to be achieved

Second, **consumer protection laws** were enacted to protect vulnerable members of society. Consumer protection laws were necessary because they created formalized safeguards for unsuspecting consumers. For example, the FTC's Bureau of Consumer Protection attempts to limit prejudicial and deceitful business practices by gathering consumer complaints of deceptive conduct. From a legal perspective, the Bureau of Consumer Protection researches unlawful behavior, sues perpetrating organizations, ensures just marketplace practices, and teaches consumers and companies of their responsibilities and rights.[6] As a society, it is important to provide legal protection and education for consumers and businesses alike.

consumer protection laws

regulations enacted to protect vulnerable members of society with formal safeguards for consumers

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Third, **sustainability** is a growing area of concern in society. In the United States, the term is used more often to refer 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.

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sustainability

a company's economic, environmental, and social impact

Fourth, **corporate governance** refers to formal systems of accountability, oversight, and control. Corporate governance continues to be an important topic in light of the number of business scandals that emerge every year. Issues in corporate governance include concerns over executive compensation, internal control mechanisms, and risk management.

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corporate governance

a company's formal system of accountability, oversight, and control

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Fifth, **philanthropy** is a key element of social responsibility. Corporate philanthropy is demonstrated in many forms. For example, corporations can contribute financially through cash donations or organizational members can gift their time through volunteerism. Another way that organizations undertake philanthropic initiatives is through outside partnerships with nonprofit firms and charities. Alternatively, corporations may establish in-house philanthropic programs, thereby overseeing their own socially responsible works, when executives feel that their firms' philanthropic giving and strategic direction are aligned.[7]

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philanthropy

the desire to improve the welfare of others through donations of money, resources, or effort

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Sixth, **legal responsibility** is a central factor of social responsibility. Legal responsibility is often thought of as the most basic expectation. Accordingly, organizations must show that they have exceeded their legal responsibilities before they can address their ethical purposes and standards. Legal responsibility is a key foundational issue that affects firms' stakeholder evaluations.[8]

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legal responsibility

the most basic expectation that a company must comply with the law

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Finally, **employee well-being** occurs when organizations create a safe, healthy, diverse, equitable, and inclusive employment environment for their workforce. Such activities include protecting employees' health and safety while creating job opportunities for development and growth. Employees thrive when their managers treat them with dignity and provide an atmosphere that emphasizes dynamic opportunities to contribute to the firm's overall mission and vision.[9] Taken together, social responsibility issues speak to the diverse array of corporate practices that affect firms' decision-making processes. Figure 1.1 discusses the social responsibility issues that we will be covering in this text.

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employee well-being

the health and wellness of employees, including how workers feel about their work and their working environment

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These seven 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 a business has one purpose—satisfying its investors or shareholders—and that any other considerations are outside its scope.[10] Although this view still exists today, it has lost credibility as more and more companies have assumed a social responsibility orientation.[11] Companies see social responsibility as part of their overall corporate strategy and a benefit that directly increases the bottom line. We define **social responsibility** as a strategic focus for fulfilling economic, legal, ethical, and philanthropic responsibilities. Social responsibility can also be referred to as corporate social responsibility (CSR) when adopted by a business. 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.

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social responsibility

a strategic focus for fulfilling economic, legal, ethical, and philanthropic responsibilities, can also be referred to as corporate social responsibility (CSR) when adopted by a business

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Figure 1.1 Major Emphases of Social Responsibility

Source: © O.C. Ferrell, 2024.

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, and large corporations—implement social responsibility initiatives to further their relationships with their customers, their employees, and their community at large. Multinational corporations, such as HP or IKEA, can have far-reaching impacts on improving education, healthcare, energy and climate change, and sustainability. But even smaller firms, such as apparel brand Bombas or meat delivery firm Butcher Box, can lead with strong ethics and values to become major players in the market. 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. Nonprofits are not immune from ethical misconduct. For example, the state of Florida clawed back $5 million from the Florida Coalition Against Domestic Violence after the CEO was accused of manipulating the nonprofit's board of directors to pad her salary, giving her more than $7.5 million over three years.[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 represent more than 47 percent of U.S. employees and generate more than 32 percent of U.S. exports.[14] In addition to these economic outcomes, small businesses present an entrepreneurial opportunity to many people, some of whom have been shut out of the traditional labor force. Historically underrepresented groups are increasingly interested in self-employment and other forms of small business activity. It is vital that all businesses consider the relationships and expectations that our definition of social responsibility suggests.

Table 1.1 3M's Guiding Values

Diversity, Equity, and Inclusion: We are going to keep building our diversity, which will make us a much more creative and innovative company.
Sustainability: We are going beyond diversity to make 3M the most inclusive enterprise we can be, not just valuing the presence of diversity but further embedding equity and inclusion into the fabric of our company to bring more voices to the table.
3M Code of Conduct: We have been a leader in the space for decades and are working to expand this leadership on all fronts through our products and our operations.

Source: The 3M Company, "2021 Sustainability Report," https://multimedia.3m.com/mws/media/2006066O/2021-sustainability-report.pdf (accessed December 17, 2021).

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, the 3M Company, a multinational conglomerate with more than 60,000 products in its portfolio, established values that create a strong culture both within and outside the company (shown in Table 1.1). These values guide the way the company fulfills its responsibilities to its customers, its shareholders, its employees, the community, and the natural environment. This 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. A **mission statement** is a summary of a company's aims and values. For example, American Express's mission is to become essential to its customers by providing differentiated products and services to help them achieve their aspirations. A **vision statement** is a description of a company's current and future objectives to help align decisions with their philosophy and goals. American Express's vision is to provide the world's best customer experience every day.[15]

mission statement

a summary of a company's aims and values

vision statement

a description of a company's current and future objectives to help align decisions with their philosophy and goals

In addition to a company's verbal and written commitment to social responsibility, our definition requires action and results. To implement its social responsibility philosophy, the 3M Company has developed and implemented several corporate-wide strategic initiatives, including local community engagement, volunteerism, environmental initiatives, stakeholder engagement, and a commitment to diversity and inclusion. For example, through 3M's sustainability efforts, the company has reduced its greenhouse gas emissions by more than 71 percent over the last 20 years.[16] 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 high-level management. Leaders must believe in and support the integration of stakeholder interests and economic, legal, ethical, and philanthropic responsibilities into every corporate decision. For example, company objectives for brand awareness and loyalty can be developed and measured from both a marketing and a social responsibility standpoint because researchers have documented a relationship between consumers' perceptions of a firm's social responsibility and their intentions to purchase that firm's brands. There are various ways that companies align stakeholder interests and social responsibility into business decisions. For example, engineers can integrate consumers' desires for reduced negative environmental impact into product design, and marketers can ensure that a brand's advertising campaign incorporates this product benefit. Finally, consumers' desire for an environmentally sustainable product may stimulate a stronger company interest in assuming environmental leadership in all aspects of its operations. For example, in response to consumer demand for a more sustainable denim product, Levi's introduced its Water<Less denim finishing technique more than a decade ago. Since then, the company has saved more than 4.2 billion liters of water from the finishing process, and now more than 80 percent of the company's products are made with these environmentally-friendly techniques.[17] 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 later in this chapter.

Because of the need for coordination, a large company that is committed to social responsibility often creates specific positions or departments to spearhead the various components of its program. For example, Twilio, a cloud communications company, has a dedicated CSR department with more than 30 employees that focus on social impact, community issues, grants, environmental responsibility, and more.[18] A smaller firm may give an executive, perhaps in human resources or the business owner, the ability to make decisions regarding community involvement, ethical standards, philanthropy, and other areas. Regardless of the formal or informal nature of the structure, this department or executive should ensure that social responsibility initiatives are aligned with the company's **corporate culture**, integrated with companywide goals and plans, fully communicated within and outside the company, and measured to determine their effectiveness and strategic impact. In sum, social responsibility must be given the same planning time, priority, and management attention that are given to any other company initiative, such as continuous improvement, cost management, investor relations, research and development, human resources, or marketing research.

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corporate culture

shared values, attitudes, and beliefs that characterize members of an organization

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Social Responsibility Fulfills Society's Expectations

Another element of our definition of social responsibility involves society's expectations of business conduct. Many people believe that businesses should accept and abide by four types of responsibility: financial, legal, ethical, and philanthropic (see Table 1.2). To varying degrees, the four types are required, expected, and/or desired by society.[19]

In Stage 1, businesses have a responsibility to be financially viable so that they can provide a return on investment for their owners, create and sustain jobs for the community, and contribute goods and services to the economy. The economy is influenced by the ways that organizations relate to their shareholders, their customers, their employees, their suppliers, their competitors, their community, and even the natural environment. For example, in nations with corrupt businesses and industries, the negative effects often pervade the entire society. Transparency International, a German organization dedicated to curbing national and international corruption, conducts an annual survey on the effects of business and government corruption on a country's economic growth and prospects. The organization reports that corruption reduces economic growth, inhibits foreign investment, and often channels investment and funds into "pet projects" that may create little benefit other than high returns to the corrupt decision-makers. There are a host of practical implications for the four levels of social responsibility, business, and its effects on society.

In Stage 2, companies are required to maintain compliance with legal and regulatory requirements specifying the nature of responsible business conduct. Society enforces its expectations regarding the behavior of businesses through the legal system. If a business chooses to behave in a way that customers, special-interest groups, or other businesses perceive as irresponsible, these groups may ask their elected representatives to draft legislation to regulate the business's behavior, or they may sue the firm in a court of law in an effort to force it to "play by the rules." If a company does not abide by the law, there will be negative consequences. For example, Lee Jae Yong, the former head of Samsung, a South Korean multinational electronics company, was sentenced to more than two years in prison for a bribery and embezzlement scandal that involved the concealment of about $7.8 million.[20]

Beyond financial viability and legal compliance, companies must decide what they consider to be just, fair, and right—the realm of ethics, principles, and values—in Stage 3. **Business ethics** includes the principles, values, and norms that guide individual and group behavior in the world of business. **Principles** are specific and universal boundaries for behavior that should never be violated. Principles such as fairness and honesty are determined and expected by the public, government regulators, special-interest groups, consumers, industry, and individual organizations. The most basic of these principles have been codified into laws and regulations to require that companies conduct themselves in ways that conform to society's expectations. Ethical issues exist in most managerial decisions. A firm needs to create an ethical culture with values and norms that meet the expectations of stakeholders. **Values** are enduring beliefs and ideals that are socially enforced. For example, AT&T, a U.S. telecommunications company, lives by these values: live true, think big, pursue excellence, inspire imagination, be there, stand for equality, embrace freedom, and make a difference.[21] **Norms** are standards of behavioral expectations. Norms guide, control, and regulate ethical conduct. Examples of ethical norms would be treating employees fairly and providing consumers with truthful information.

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business ethics

the principles, values, and norms that guide individual and group behavior in the world of business

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principles

specific and universal boundaries for behavior that should never be violated

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values

enduring beliefs and ideals that are socially enforced

norms

standards of behavioral expectations that guide, control, and regulate ethical conduct

Table 1.2 Social Responsibility Requirements

Stages	**Examples**
Stage 1: Financial Viability	Starbucks offers investors a healthy return on investment, including paying dividends.
Stage 2: Compliance with Legal and Regulatory Requirements	Starbucks specifies in its code of conduct that payments made to foreign government officials must be lawful according to the laws of the United States and the foreign country.
Stage 3: Ethics, Principles, and Values	Starbucks offers healthcare benefits to part-time employees and supports coffee growers so they get a fair price.
Stage 4: Philanthropic Activities	Starbucks created the Starbucks Foundation to award grants to eligible nonprofits and to give back to their communities.

Many firms and industries have chosen to go beyond these basic laws in an effort to act responsibly. The Direct Selling Association (DSA), for example, has established a code of ethics that applies to all individual and company members of the association. A **code of ethics**, also called a code of conduct, is a written collection of the rules, principles, values, and expectations of employee behavior. Because direct selling involves personal contact with consumers, there are many ethical issues that can arise. For this reason, the DSA code directs the association's members to go beyond legal standards of conduct in areas such as product representation, appropriate ways of contacting consumers, and warranties and guarantees. In addition, the DSA actively works with government agencies and consumer groups to ensure that ethical standards are pervasive in the direct selling industry. Also, the DSA partners with the Better Business Bureau (BBB)

National Programs to monitor the entire direct selling industry to discover misconduct and support ethical conduct. Violations of the DSA code of ethics and potential legal issues are addressed, and if the firm does not engage in corrective action, the issue can be forwarded to a regulatory agency. This form of self-regulation can be highly effective, protecting consumers and supporting fair competition.

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code of ethics

a written collection of the rules, principles, values, and expectations of employee behavior

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In Stage 4 are **philanthropic activities**, which promote human welfare and goodwill. By making philanthropic donations of money, time, and other resources, companies can contribute to their communities and society and improve the quality of life. For example, the Home Depot Foundation has invested more than $400 million over the last decade to veteran causes and has spent more than $50 million training and certifying separating military personnel, high school students, and undeserved youths to become skilled tradespeople.[22]

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philanthropic activities

efforts made by a company to improve human welfare and goodwill

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When these dimensions of social responsibility were first introduced, many people assumed that there was a natural progression from financial viability to philanthropic activities, meaning that a firm had to be financially viable before it could properly consider the other three elements. Today, social responsibility is viewed in a more holistic fashion, with all four dimensions seen as related and integrated, and this is the view that we will use in this book.[23] In fact, companies demonstrate varying degrees of social responsibility at different points in time. Figure 1.2 depicts the social responsibility continuum. Companies' fulfillment of their responsibilities can range from a minimal to a strategic focus that results in a **stakeholder orientation**. Firms that focus only on shareholders and the bottom line operate from a legal or compliance perspective.[24] The opioid epidemic started, in part, because of the pharmaceutical industry's profit-driven focus. While the opioid epidemic sparked national debate, it was uncovered that the pharmaceutical industry incentivized doctors to prescribe opioids and downplayed the long-term patient risks to the public. The pharmaceutical industry's profit-maximization strategy, which resulted in high investor returns, led to unintended consumer deaths.[25]

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stakeholder orientation

the aim to benefit all parties affected by the success or failure of an organization

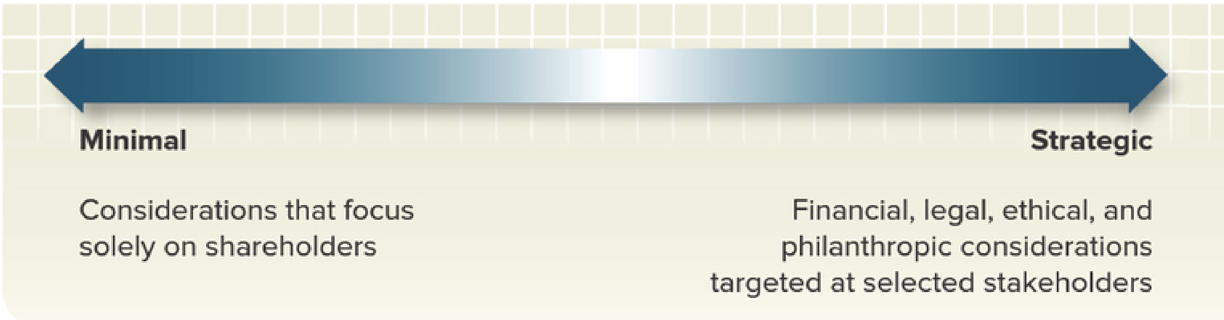

Figure 1.2 Social Responsibility Continuum

Resource-advantage theory stresses that a firm's resources provide competitive advantage. Promoting social trust and social responsibility develops the foundation for economic growth in a firm as well as a society. Customers are often motivated to enhance organizations that exhibit socially responsible behavior. Klean Kanteen, for example, has a positive reputation for being socially responsible. The employee-owned stainless steel water bottle company focuses on the areas of plastic pollution, consumer safety, land and water conservation, and environmental stewardship.[26] Thus, a company's socially responsible behavior can become a resource advantage.

resource-advantage theory

a theory stating that the value of a resource is viewed relative to its potential to create competitive differentiation or customer value

Strategic social responsibility is realized when a company has integrated a range of expectations, desires, and constituencies into its strategic direction and planning processes. In this case, an organization considers social responsibility an essential component of its vision, mission, values, and practices. Seventh Generation, a popular mission-driven cleaning products company, wants to "transform the world into a healthy, sustainable, and equitable place for the next seven generations." Social responsibility is woven into the fabric of the company which uses recycled materials, embraces ingredient transparency, and engages in advocacy.[27] Executives with this philosophy often maintain that customers will be lost, employees will become dissatisfied, and other detrimental effects will occur if a firm abandons its strategic responsibilities.

In this book, we will give many examples of firms that are at different places along this continuum to show how the pursuit of social responsibility is never ending.

Social Responsibility Requires a Stakeholder Orientation

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

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stakeholders

constituents who have an interest or stake in a company's products, industry, markets, and outcomes

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R. E. Freeman, a developer of stakeholder theory, maintains that business and society are "interpenetrating systems," in that each affects and is affected by the other.[28] For the common good to be achieved, cross-institutional and cross-organizational interactions must move society toward shared partnerships. Research suggests interorganizational networks can be an important element of a successful corporate strategy that creates shared value. By definition, **interorganizational networks** are a set of organizations that are associated through shared or mutual affiliations and interests. For example, interorganizational networks include strategic business alliances, supply chains, human and health services consortia, public-private partnerships, and others. Identifying businesses that are committed to similar environmental and societal issues and that promote a shared operating environment can help create not only financial success, but also socially responsible actions.[29] Overall, companies may affect their communities and beyond through partnering with other organizations with similar value systems.[30]

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interorganizational networks

a set of organizations that are associated through shared or mutual affiliations and interests

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Development of Social Responsibility

In 1959, Harvard economist Edward Mason asserted that business corporations are "the most important economic institutions."[31] His declaration implied that companies probably affect the community and society in social terms as much as (or perhaps more than) in monetary, or financial, terms. Employment and the benefits associated with a living wage are necessary to develop a sustainable economy. The opportunity for individuals and businesses to attain economic success is necessary to create a society that can address social issues. Today, some question our economic system, but without economic resources, little progress can be made in developing society. Social responsibility has always been a part of our economic system. The history of American capitalism relates to the economic, technological, political, and social development of the country. In the early and mid-nineteenth century, most people lived in rural communities and were largely reliant on trade surpluses and commodity exchanges for substance. In 1850s, for instance, approximately 20 million of the 23 million Americans in the population lived in rural areas where few businesses had more than 300 employees. As industrialization advanced, rail systems and new technology provided an opportunity for manufacturing and retail institutions to develop. Finally, by the twentieth century, businesses were developed and their impact on society was much greater.

Although some firms have more of a social impact than others, companies influence many aspects of our lives, from the workplace to the natural environment. This influence has led many people to conclude that companies' actions should be designed to benefit employees, customers, business partners, and the community as well as shareholders. Social responsibility has become a benchmark for companies today.[32] However, these expectations have changed over time. For example, the first corporations in the United States were granted charters by various state governments because they were needed to serve an important function in society, such as transportation, insurance, water, or banking services. In addition to serving as a license to operate, these charters specified the internal structure of these firms, allowing their actions to be more closely monitored.[33] During this period, corporate charters were often granted for a limited period of time because many people, including legislators, feared the power that corporations could potentially wield. It was not until the mid-1800s and early 1900s that profit and responsibility to stockholders became major corporate goals.[34]

Historical Review of Social Responsibility

After World War II, as many large U.S. firms came to dominate the global economy, their actions inspired imitation in other nations. The definitive external characteristic of these firms was their economic dominance. Internally, they were marked by the virtually unlimited autonomy afforded to their top managers. This total discretion meant that these firms' top managers had the luxury of not having to answer for some of their actions.[35] In the current business mindset, such total autonomy would be viewed as a hindrance to social responsibility because there is no effective system of checks and balances. In a later chapter, we elaborate on *corporate governance,* the process of control and accountability in organizations that is necessary for social responsibility.

In the 1950s, the 130 or so largest companies in the United States provided more than half of the country's manufacturing output. The top 500 firms accounted for almost twothirds of the country's nonagricultural economic activity.[36] U.S. productivity and technological advancements dramatically outpaced those of global competitors, such as Japan and Western Europe. For example, the level of production in the United States was twice as high as that in Europe and quadruple that in Japan. The level of research and development carried out by U.S. corporations was also well ahead of overseas firms. For these reasons, the United States was perceived as setting a global standard for other nations to emulate.

During the 1950s and 1960s, these companies provided benefits that are often overlooked. Their contributions to charities, the arts, culture, and other community activities were beneficial to the industry or to society rather than simply to the companies' own profitability. For example, the lack of competition meant that companies had the profits to invest in higher-quality products for consumer and industrial use. Although the government passed laws that required companies to take actions to protect the natural environment, make products safer, and promote equity and diversity in the workplace, many companies voluntarily adopted responsible practices rather than constantly fighting government regulations and taxes. These corporations once provided many of the services that are now provided by the government in the United States. For example, during this period, the U.S. government spent less than the government of any other industrialized nation on such things as pensions and health benefits, as these were provided by companies rather than by the government.[37] In the 1960s and 1970s, however, the business landscape changed.

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

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core competencies

unique advantages that differentiate a firm from its competitors

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Thus, the 1980s and 1990s brought a new focus on profitability and economies of scale. Efficiency and productivity became the primary objectives of business. This fostered a wave of downsizing and restructuring that left some people and communities without financial security. Before 1970, large corporations employed about one of every five Americans, but by the 1990s, they employed only one in ten. The familial relationship between employee and employer disappeared, and along with it went employee loyalty and company promises of lifetime employment. Companies slashed their payrolls to reduce costs, and employees changed jobs more often. Workforce reductions and "job hopping" were almost unheard of in the 1960s but had become commonplace two decades later. These trends made temporary employment and contract work the fastest-growing forms of employment throughout the 1990s.[38]

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

Corporate responsibilities were renewed in the 1990s. Partly as a result of business scandals and Wall Street excesses in the 1980s, many industries and companies decided to pursue and expect more responsible and respectable business practices. Many of these practices focused on creating value for stakeholders through more effective processes and decreased the narrow and sole emphasis on corporate profitability. At the same time, consumers and employees became less interested in making money for its own sake and turned toward intrinsic rewards and a more holistic approach to life and work.[39] This resulted in increased interest in the development of human and intellectual capital; the installation of corporate ethics programs; the development of programs to promote employee volunteerism in the community; strategic philanthropy efforts and trust in the workplace; and the initiation of a more open dialogue between companies and their stakeholders.

Despite major advances in the 1990s, the sheer number of corporate scandals at the beginning of the twenty-first century prompted a new era of social responsibility. The downfall of Enron, WorldCom, and other corporate stalwarts in the beginning of the 2000s caused regulators, former employees, investors, nongovernmental organizations (NGOs), and ordinary citizens to question the role and integrity of big business and the underlying economic system. Federal legislators passed the Sarbanes-Oxley Act to overhaul securities laws and governance structures. A new Public Company Accounting Oversight Board was implemented to regulate the accounting and auditing profession after Enron and WorldCom failed due to accounting scandals. Newspapers, business magazines, and news websites devoted entire sections to the trials and tribulations of executives, their companies and auditors, and stock analysts.

In 2007 and 2008, a housing boom in the United States collapsed, setting off a financial crisis that would later become known as the Great Recession. Homeowners could not afford to pay their mortgages. Because of the housing boom, in many cases the mortgages were higher than the houses were worth. People all across the United States began to walk away from their mortgages, leaving banks and other lenders with hundreds of thousands of houses that had decreased in value. Meanwhile, companies such as AIG were using complex financial instruments known as “derivatives” to transfer the risks of securities such as mortgages, almost as a type of insurance policy. Financial firms did not have enough of a safety net to cover so many defaults. The housing collapse created a chain reaction that led to the worst recession since the Great Depression. The government was forced to step in to bail out financial firms in order to keep the economy going and prevent the economy from collapsing further. Many established organizations went bankrupt or were acquired by other firms at a fraction of what they were originally worth. Table 1.3 describes some of the corporations and banks that collapsed in the financial crisis.

In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, the most sweeping legislation since Sarbanes-Oxley. Dodd-Frank is intended to protect the economy from similar financial crises in the future by creating more transparency in the financial industry. This complex law required legislators to develop hundreds of laws to increase transparency and create financial stability. The Dodd-Frank Act will be discussed in more detail in Chapter 4. The financial crisis and the collapse of many well-known institutions led to a renewed interest in business ethics and social responsibility.

Table 1.3 Corporations and Banks Involved in the Financial Crisis

Organization	**Outcome**
General Motors (GM)	Declared bankruptcy and required a government bailout of $49.5 billion to reorganize. The government sold their last shares in GM in 2013 and is estimated to have lost more than $10 billion on its investment.
AIG	Received a government bailout of $182 million and was criticized for using bailout money to pay executives large bonuses. AIG repaid the last of its loans in 2013.
Bank of America	Received $42 billion in bailout money as part of the Troubled Asset Relief Program (TARP). It paid back its loans in 2009.

Organization	Outcome
Washington Mutual	Its banking subsidiaries were sold by the Federal Deposit Insurance Corporation to J. P. Morgan for $1.9 billion.
Chrysler	Declared bankruptcy and required a government bailout of $12.5 billion. By 2011, Chrysler had repaid most of the debt, and Fiat agreed to purchase the rest of the U.S. Treasury’s shares in Chrysler for $500 million.
Countrywide Financial	Acquired by Bank of America for $4.1 billion. Bank of America inherited many of the lawsuits against Countrywide claiming it had engaged in fraudulent and discriminatory lending practices.

Recent Developments in Social Responsibility

After the Great Recession, the economy stabilized, and the stock market recovered. Even though many banks failed during the financial crisis, today banks and other financial institutions are much larger than before. Rather than getting rid of too-big-to-fail financial institutions, they seemed to grow much larger, despite legislation. The good news is banks have proven to be much healthier and safer after the financial crisis. During the COVID-19 pandemic in 2020, which sent the economy into a brief recession and caused unemployment to soar to the highest levels since the Great Recession, banks helped keep businesses and consumers afloat through lending. As the economy recovered, banks continued to pass the Federal Reserve’s stress tests, which were put into place after the financial crisis.[40]

Social responsibility was brought to the forefront during the COVID-19 pandemic as millions of people lost their jobs, supply chains were disrupted, and essential workers feared for their health and safety. Supply chain disruption during the pandemic was a threat to companies achieving their goals, and it severely damaged stakeholder relationships. Disruptions in the economy and supply chains, including supply shortages, resulted in inflation reaching a 30-year high, with price increases that will have a long-term impact on many consumers. This marked one of the first times the complexity of the global supply chain became apparent for many consumers. Studies suggest that sustainable procurement practices can help companies improve their supply chain resilience and reduce risk.[41]

When the pandemic first struck, companies such as Amazon, Apple, Google, Facebook, Microsoft, and Twitter voluntarily continued to pay contingent workers that could not work due to the outbreak.[42] Many companies implemented health and safety practices, donated personal protective equipment, increased corporate giving, and offered financial assistance to support employees. On the flip side, many companies were slow to respond or did not respond adequately. Companies were put under the microscope as the public looked to see how they treated stakeholders. In the face of ethical conflict, some business owners prioritized profit over public health. The pandemic shined a light on the importance of adopting a stakeholder orientation and addressing environmental, social, and governance issues.

Environmental, social, and governance (ESG) Stakeholders are increasingly demanding that firms protect the environment, contribute to social causes, and engage in conduct that is responsible and ethical. This trend is causing firms to improve their ethical principles and play a more active role in society. ESG is a framework for evaluation of firm performance in the areas of environmental, social, and governance.[43] The ESG framework allows firms to evaluate their priorities in these three areas relative to their industry, investor priorities, peer comparisons, and the cultural and leadership priorities of the organization.

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environmental, social, and governance (ESG)

A framework for evaluation of firm performance in the areas of environmental, social, and governance

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> *Environmental* refers to actions related to climate change, energy use, waste, pollution, recycling, and more.
>
> *Social* refers to policies and programs related to employees (human capital), equal pay, LGBTQ+ policies, and product liability, among other issues.
>
> *Governance* refers to corporate governance issues such as regulatory compliance, transparent accounting methods, ethical leadership, executive compensation, oversight, and accountability.[44]

ESG, which began as a corporate social responsibility initiative, has become mainstream. It has been widely adopted in the financial industry, leading to the rise of ESG investing and ESG bonds. ESG assets under management will exceed $50 trillion globally within the next few years, according to *Bloomberg*.[45] Financial services companies such as Morningstar have developed ESG scoring tools to help guide investors. Figure 1.3 provides an example of how ESG ratings can come together. Additionally, investors can turn to mutual funds and exchange-traded funds (ETFs) created by financial services companies that bundle companies that rank highly on ESG factors. Microsoft, Accenture, Texas Instruments, and Salesforce are examples of companies with high ESG rankings. In fact, Accenture and Salesforce partnered, bringing together their respective technologies to help companies bring sustainability to the front of their business. The alliance allows companies to use historical and real-time ESG data to track, measure, and act on sustainability initiatives.[46]

Figure 1.3 ESG Framework Example

Source: Adapted from FTSE Russel, "ESG Ratings," https://www.ftserussell.com/data/sustainability-and-esg-data/esg-ratings (accessed December 21, 2021).

Ethical Responsibilities in INVESTING: Investors Open Their Wallets to ESG

Environmentalism, social responsibility, and corporate governance are top of mind for both businesses and consumers, so much so that investors use environmental, social, and governance (ESG) factors when evaluating a company's performance. Investors consider a firm's performance in these categories relative to its industry and its peers alongside the cultural and leadership priorities of the organization. This is known as ESG investing, sometimes called socially responsible investing or sustainability investing.

Environmental factors include actions related to climate change, greenhouse gas emissions, the use of natural resources, recycling, waste, pollution, and more. For example, clothing companies that use renewable materials and sustainable manufacturing processes would rank highly on this factor. Social considerations include equal pay, LGBTQ+ policies, and product liability. Many people look for companies whose values align with their own. Governance refers to corporate governance issues such as leadership, executive compensation, oversight, and accountability.

Financial services companies, such as Robinhood, Fidelity, and Vanguard, create ESG funds, including mutual funds, index funds, and exchange-traded funds (ETFs) that allow investors to support a portfolio of socially responsible companies in a low-risk way. Since funds are created by financial experts and consist of many companies, they are less risky than buying individual stocks. Investors who use an ESG investing strategy put their money behind companies that have a positive impact on the environment and society and lead with strong corporate governance.

Along the same lines, ESG bonds have become popular debt instruments in corporate financing as companies improve their reputation for sustainability, social responsibility, and corporate governance. For example, Apple has borrowed around $4.7 billion in green bonds for various improvement projects, including the installation of solar panels on its plants. With green bonds, an audit report trail allows investors to make sure funds are used for their intended purpose.

Investing based on ESG factors has become incredibly popular and shows no signs of slowing down; however, several hurdles must be overcome. First, factors can be difficult to measure and quantify. Second, because of this, it is unclear if ESG ratings developed by financial services firms are truly correlated with a firm's performance on these factors. The U.S. Securities and Exchange Commission is considering requiring fund managers to disclose the criteria and data they use to apply certain labels to their investment options. Finally, many investors are still skeptical of ESG investing due to greenwashing by firms that attempt to appear more environmentally friendly than they really are. Regardless of these issues, the future for ESG investing looks green. According to *Barron's*, global investing into ESG and sustainability funds could quadruple by 2030.

Sources: Karrie *Gordon,* "Get Ready for ESG Investing to Quadruple by End of Decade," *ETF Trends*, December 6, 2021, https://www.etftrends.com/esg-channel/get-ready-for-esg-investing-to-quadruple-by-end-of-decade/ (accessed December 9, 2021); Lewis Braham, "An ESG Fund Changes the World, One Company at a Time," *Barron's*, December 8, 2021, https://www.barrons.com/articles/esg-balanced-fund-stocks-green-bonds-51638914065 (accessed December 9, 2021); "Where Will ESG Investing Be in