9 ETHICS, CORPORATE SOCIAL RESPONSIBILITY, ENVIRONMENTAL SUSTAINABILITY, AND STRATEGY

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO9-1 Understand why the standards of ethical behavior in business are no different from ethical standards in general.

LO9-2 Recognize conditions that give rise to unethical business strategies and behavior.

LO9-3 Identify the costs of business ethics failures.

LO9-4 Understand the concepts of corporate social responsibility and environmental sustainability and how companies balance these duties with economic responsibilities to shareholders.

Clearly, a company has a responsibility to make a profit and grow the business, but just as clearly, a company and its personnel also have a duty to obey the law and play by the rules of fair competition. But does a company have a duty to go beyond legal requirements and operate according to the ethical norms of the societies in which it operates? And does it have a duty or obligation to contribute to the betterment of society independent of the needs and preferences of the customers it serves? Should a company display a social conscience and devote a portion of its resources to bettering society? Should its strategic initiatives be screened for possible negative effects on future generations of the world's population?

This chapter focuses on whether a company, in the course of trying to craft and execute a strategy that delivers value to both customers and shareholders, also has a duty to (1) act in an ethical manner, (2) demonstrate socially responsible behavior by being a committed corporate citizen, and (3) adopt business practices that conserve natural resources, protect the interest of future generations, and preserve the well-being of the planet.

What Do We Mean by Business Ethics?

LO9-1 Understand why the standards of ethical behavior in business are no different from ethical standards in general.

CORE CONCEPT

Business ethics involves the application of general ethical principles to the actions and decisions of businesses and the conduct of their personnel.

Business ethics is the application of ethical principles and standards to the actions and decisions of business organizations and the conduct of their personnel.[1] Ethical principles in business are not materially different from ethical principles in general because business actions have to be judged in the context of society's standards of right and wrong. There is not a special set of rules that businesspeople decide to apply to their own conduct. If dishonesty is considered unethical and immoral, then dishonest behavior in business–whether it relates to customers, suppliers, employees, or shareholders–qualifies as equally unethical and immoral. If being ethical entails adhering to generally accepted norms about conduct concerning what is right and wrong, then managers must consider such norms when crafting and executing strategy.

While most company managers are careful to ensure that a company's strategy is within the bounds of what is legal, evidence indicates they are not always so careful to ensure that their strategies are within the bounds of what is considered ethical. In recent years, there have been revelations of ethical misconduct on the part of managers at such organizations as Volkswagen, FIFA, Wells Fargo, several leading investment banking firms, and a host of mortgage lenders. The consequences of crafting strategies that cannot pass the test of moral scrutiny are manifested in sharp drops in stock price that cost shareholders billions of dollars, devastating public relations hits, sizable fines, and criminal indictments and convictions of company executives.

Drivers of Unethical Strategies and Business Behavior

LO9-2 **Recognize conditions that give rise to unethical business strategies and behavior.**

Apart from "the business of business is business, not ethics" kind of thinking apparent in recent high-profile business scandals, three other main drivers of unethical business behavior also stand out:[2]

- *Faulty oversight, enabling the unscrupulous pursuit of personal gain and other selfish interests.* People who are obsessed with wealth accumulation, greed, power, status, and other selfish interests often push ethical principles aside in their quest for self-gain. Driven by their ambitions, they exhibit few qualms in skirting the rules or doing whatever is necessary to achieve their goals. A general disregard for business ethics can prompt all kinds of unethical strategic maneuvers and behaviors at companies. The numerous scandals that have tarnished the reputation of ridesharing company Uber and forced the resignation of its CEO are a case in point, as described in Concepts & Connections 9.1.

CORE CONCEPT

Self-dealing occurs when managers take advantage of their position to further their own private interests rather than those of the company.

Responsible corporate governance and oversight by the company's corporate board is necessary to guard against self-dealing and the manipulation of information to disguise such actions by a company's managers. **Self-dealing** occurs when managers take advantage of their position to further their own private interests rather than those of the firm.

- *Heavy pressures on company managers to meet or beat performance targets.* When key personnel find themselves scrambling to meet the quarterly and annual sales and profit expectations of investors and financial analysts or to hit other ambitious performance targets, they often feel enormous pressure to *do whatever it takes* to protect their reputation for delivering good results. As the pressure builds, they start stretching the rules further and further, until the limits of ethical conduct are overlooked.[3] Once people cross ethical boundaries to "meet or beat their numbers," the threshold for making more extreme ethical compromises becomes lower.

  To meet its demanding profit target, Wells Fargo put such pressure on its employees to hit sales quotas that many employees responded by fraudulently opening customer accounts. In 2017, after the practices came to light, the bank was forced to return $2.6 million to customers and pay $186 million in fines to the government. Wells Fargo's reputation took a big hit, its stock priced plummeted, and its CEO lost his job.[4]

- *A company culture that puts profitability and good business performance ahead of ethical behavior.* When a company's culture spawns an ethically corrupt or amoral work climate, people have a company-approved license to ignore "what's right" and engage in most any behavior or employ most any strategy they think they can get away with. Such cultural norms as "everyone else does it" and "it is OK to bend the rules to get the job done" permeate the work environment. At such

CONCEPTS & CONNECTIONS 9.1

ETHICAL VIOLATIONS AT UBER AND THEIR CONSEQUENCES

The peer-to-peer ridesharing company Uber has been credited with transforming the transportation industry, upending the taxi market, and changing the way consumers travel from place to place. But its lack of attention to ethics has resulted in numerous scandals, a tarnished reputation, a loss of market share to rival companies, and the ouster of its co-founder Travis Kalanick from his position as the company's CEO. The ethical lapses for which Uber has been criticized include the following:

- **Sexual harassment and a toxic workplace culture.** In June 2017, Uber fired over 20 employees as a result of an investigation that uncovered widespread sexual harassment that had been going on for years at the company. Female employees who had reported incidents of sexual harassment were subjected to retaliation by their managers, and reports of the incidents to senior executives resulted in inaction.
- **Price gouging during crises.** During emergencies such as Hurricane Sandy and the 2017 London Bridge attack, Uber added high surcharges to the cost of their services. This drew much censure, particularly since its competitors offered free or reduced cost rides during those same times.
- **Data breaches and violations of user privacy.** Since 2014, the names, e-mail addresses, and license information of over 700,000 drivers and the personal information of over 65 million users have been disclosed as a result of data breaches. Moreover, in 2016 the company paid a hacker $100,000 in ransom to prevent the dissemination of personal driver and user data that had been breached, but it failed to publicly disclose the situation for over six months.
- **Inadequate attention to consumer safety.** Substandard vetting practices at Uber came to light after one of its drivers was arrested as the primary suspect in a mass shooting in Kalamazoo, Michigan, and after a series of reports alleging sexual assault and misconduct by its drivers. Uber's concern for safety was further questioned when a pedestrian was tragically struck and killed by one of its self-driving vehicles in 2018.
- **Unfair competitive practices.** When nascent competitor Gett launched in New York City, Uber employees ordered and canceled hundreds of rides to waste drivers' time and then offered the drivers cash to drop Gett and join Uber. Uber has been accused of employing similar practices against Lyft.

The ethical violations at Uber have not been without economic consequence. They contributed to a significant market share loss to Lyft, Uber's closest competitor in the United States. In January 2017, when Uber was thought to have engaged in price-gouging during protests against legislation banning immigrants from specific countries, its market share dropped 5 percentage points in a week. While Uber's ethical dilemmas are not the sole contributor to Lyft's increase in market share and expansion rate, the negative perceptions of Uber's brand from its unethical actions has afforded its competitors significant opportunities for brand and market share growth. And without a real change in Uber's culture and corporate governance practices, there is a strong likelihood that ethical scandals involving Uber will continue to surface.

Mr.Whiskey/Shutterstock

Note: Developed with Alen A. Amini.

Sources: https://www.recode.net/2017/8/31/16227670/uber-lyft-market-share-deleteuber-decline-users; https://www.inc.com/associated-press/lyft-thrives-while-rival-uber-tries-to-stabilize-regain-control-2017.html; and https://www.entrepreneur.com/ article/300789.

companies, ethically immoral or amoral people are certain to play down observance of ethical strategic actions and business conduct. Moreover, cultural pressures to utilize unethical means if circumstances become challenging can prompt otherwise honorable people to behave unethically. Enron's leaders created a culture that pressured company personnel to be innovative and aggressive in figuring out how to grow current earnings–regardless of the methods. Enron's annual "rank and yank" performance evaluation process, in which the lowest-ranking 15 to 20 percent of employees were let go, made it abundantly clear that bottom-line results were what mattered most. The name of the game at Enron became devising clever ways to boost revenues and earnings, even if this sometimes meant operating outside established policies. In fact, outside-the-lines behavior was celebrated if it generated profitable new business.

The Business Case for Ethical Strategies

LO9-3 Identify the costs of business ethics failures.

While it is inarguable that there is a *moral case for an ethical business strategy* that reflects well on the character of the company and its personnel, it is also true that *an ethical strategy is good business and serves the self-interest of shareholders.* Pursuing unethical strategies and tolerating unethical conduct will in time damage a company's reputation and result in a wide-ranging set of other costly consequences. Figure 9.1

FIGURE 9.1

The Costs Companies Incur When Ethical Wrongdoing Is Discovered and Punished

Visible Costs	Internal Administrative Costs	Intangible or Less Visible Costs
• Government fines and penalties • Civil penalties arising from class-action lawsuits and other litigation aimed at punishing the company for its offense and the harm done to others • The costs to shareholders in the form of a lower stock price (and possibly lower dividends)	• Legal and investigative costs incurred by the company • The costs of providing remedial education and ethics training to company personnel • Costs of taking corrective actions • Administration costs associated with ensuring future compliance	• Customer defections • Loss of reputation • Lost employee morale and higher degrees of employee cynicism • Higher employee turnover • Higher recruiting costs and difficulty in attracting employees • Adverse effects on employee productivity • The costs of complying with often harsher government regulation

Source: Adapted from Thomas, Terry, John R. Schermerhorn, and John W. Dienhart, "Strategic Leadership of Ethical Behavior," *Academy of Management Executive* 18, no. 2 (May 2004), p. 58.

shows the wide-ranging costs a company can incur when unethical behavior is discovered and it is forced to make amends for its behavior. The more egregious a company's ethical violations, the higher are the costs and the bigger the damage to its reputation (and to the reputations of the company personnel involved). In high-profile instances, the costs of ethical misconduct can easily run into the hundreds of millions and even billions of dollars, especially if they provoke widespread public outrage and many people were harmed.

The fallout of ethical misconduct on the part of a company goes well beyond just the costs of making amends for the misdeeds. Buyers shun companies known for their shady behavior. Companies known to have engaged in unethical conduct have difficulty recruiting and retaining talented employees.[5] Most ethically upstanding people do not want to get entrapped in a compromising situation, nor do they want their personal reputations tarnished by the actions of an unsavory employer. A company's unethical behavior risks considerable damage to shareholders in the form of lost revenues, higher costs, lower profits, lower stock prices, and a diminished business reputation. To a significant degree, therefore, ethical strategies and ethical conduct are *good business.*

> Shareholders suffer major damage when a company's unethical behavior is discovered and punished. Making amends for unethical business conduct is costly, and it takes years to rehabilitate a tarnished company reputation.

Ensuring a Strong Commitment to Business Ethics in Companies with International Operations

Notions of right and wrong, fair and unfair, moral and immoral, ethical and unethical are present in all societies, organizations, and individuals. But there are three schools of thought about the extent to which the ethical standards travel across cultures and whether multinational companies can apply the same set of ethical standards in all of the locations where they operate.

The School of Ethical Universalism

According to the school of **ethical universalism,** some concepts of what is right and what is wrong are *universal* and transcend most all cultures, societies, and religions.[6] For instance, being truthful strikes a chord of what is right in the peoples of all nations. Ethical norms considered universal by many ethicists include honesty, trustworthiness, respecting the rights of others, practicing the Golden Rule, and avoiding unnecessary harm to workers or to the users of the company's product or service.[7] *To the extent there is common moral agreement about right and wrong actions and behaviors across multiple cultures and countries, there exists a set of universal ethical standards to which all societies, companies, and individuals can be held accountable.* The strength of ethical universalism is that it draws upon the collective views of multiple societies and cultures to put some clear boundaries on what constitutes ethical business behavior no matter what country market its personnel are operating in. This means that in those instances in which basic moral standards really

> **CORE CONCEPT**
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> According to the school of **ethical universalism,** the same standards of what is ethical and what is unethical resonate with peoples of most societies, regardless of local traditions and cultural norms; hence, common ethical standards can be used to judge employee conduct in a variety of country markets and cultural circumstances.

do not vary significantly according to local cultural beliefs, traditions, or religious convictions, a multinational company can develop a code of ethics that it applies more or less evenly across its worldwide operations.

The School of Ethical Relativism

Beyond widely accepted ethical norms, many ethical standards likely vary from one country to another because of divergent religious beliefs, social customs, and prevailing political and economic doctrines (whether a country leans more toward a capitalistic market economy or one heavily dominated by socialistic or state-directed capitalism principles). The school of **ethical relativism** holds that when there are national or cross-cultural differences in what is deemed an ethical or unethical business situation, it is appropriate for local moral standards to take precedence over what the ethical standards may be in a company's home market. The thesis is that whatever a culture thinks is right or wrong really is right or wrong for that culture.[8]

CORE CONCEPT

According to the school of **ethical relativism,** different societal cultures and customs create divergent standards of right and wrong; thus, what is ethical or unethical must be judged in the light of local customs and social mores, and can vary from one culture or nation to another.

A company that adopts the principle of ethical relativism and holds company personnel to local ethical standards necessarily assumes that what prevails as local morality is an adequate guide to ethical behavior. This can be ethically dangerous; it leads to the conclusion that if a country's culture generally accepts bribery or environmental degradation or exposing workers to dangerous conditions, then managers working in that country are free to engage in such activities. Adopting such a position places a company in a perilous position if it is required to defend these activities to its stakeholders in countries with higher ethical expectations. Moreover, from a global markets perspective, ethical relativism results in a maze of conflicting ethical standards for multinational companies. Imagine, for example, that a multinational company in the name of ethical relativism takes the position that it is acceptable for company personnel to pay bribes and kickbacks in countries where such payments are customary but forbids company personnel from making such payments in those countries where bribes and kickbacks are considered unethical or illegal. Having thus adopted conflicting ethical standards for operating in different countries, company managers have little moral basis for enforcing ethical standards companywide. Rather, the clear message to employees would be that the company has no ethical standards or principles of its own, preferring to let its practices be governed by the countries in which it operates.

Codes of conduct based upon ethical relativism can be *ethically dangerous* by creating a maze of conflicting ethical standards for multinational companies.

Integrative Social Contracts Theory

Integrative social contracts theory provides a middle position between the opposing views of universalism and relativism.[9] According to **integrative social contracts theory,** the ethical standards a company should try to uphold are governed both by (1) a limited

CORE CONCEPT

According to **integrative social contracts theory,** universal ethical principles based on collective views of multiple cultures combine to form a "social contract" that all employees in all country markets have a duty to observe. Within the boundaries of this social contract, there is room for host-country cultures to exert *some* influence in setting their own moral and ethical standards. However, *"first-order"* universal ethical norms always take precedence over *"second-order"* local ethical norms in circumstances in which local ethical norms are more permissive.

number of universal ethical principles that are widely recognized as putting legitimate ethical boundaries on actions and behavior in *all* situations and (2) the circumstances of local cultures, traditions, and shared values that further prescribe what constitutes ethically permissible behavior and what does not. This "social contract" by which managers in all situations have a duty to serve provides that *"first-order" universal ethical norms always take precedence over "second-order" local ethical norms in circumstances in which local ethical norms are more permissive.* Integrative social contracts theory offers managers in multinational companies clear guidance in resolving cross-country ethical differences: Those parts of the company's code of ethics that involve universal ethical norms must be enforced worldwide, but within these boundaries, there is room for ethical diversity and opportunity for host-country cultures to exert *some* influence in setting their own moral and ethical standards.

A good example of the application of integrative social contracts theory involves the payment of bribes and kickbacks. Bribes and kickbacks seem to be common in some countries, but does this justify paying them? Just because bribery flourishes in a country does not mean that it is an authentic or legitimate ethical norm. Virtually all of the world's major religions (Buddhism, Christianity, Confucianism, Hinduism, Islam, Judaism, Sikhism, and Taoism) and all moral schools of thought condemn bribery and corruption.[10] Therefore, a multinational company might reasonably conclude that the right ethical standard is one of refusing to condone bribery and kickbacks on the part of company personnel no matter what the second-order local norm is and no matter what the sales consequences are.

Strategy, Corporate Social Responsibility, and Environmental Sustainability

LO9-4 **Understand the concepts of corporate social responsibility and environmental sustainability and how companies balance these duties with economic responsibilities to shareholders.**

The idea that businesses have an obligation to foster social betterment, a much-debated topic in the past 50 years, took root in the 19th century when progressive companies in the aftermath of the industrial revolution began to provide workers with housing and other amenities. The notion that corporate executives should balance the interests of all stakeholders–shareholders, employees, customers, suppliers, the communities in which they operated, and society at large–began to blossom in the 1960s.

What Do We Mean by Corporate Social Responsibility?

The essence of socially responsible business behavior is that a company should balance strategic actions to benefit shareholders against the *duty* to be a good corporate citizen. The underlying thesis is that company managers should display a *social conscience* in operating the business and specifically consider how management decisions and company actions affect the well-being of employees, local communities, the environment, and society at large.[11] Acting in a socially responsible manner thus encompasses

CORE CONCEPT

Corporate social responsibility (CSR) refers to a company's *duty* to operate in an honorable manner, provide good working conditions for employees, encourage workforce diversity, be a good steward of the environment, and actively work to better the quality of life in the local communities in which it operates and in society at large.

more than just participating in community service projects and donating monies to charities and other worthy social causes. Demonstrating **corporate social responsibility (CSR)** also entails undertaking actions that earn trust and respect from all stakeholders—operating in an honorable and ethical manner, striving to make the company a great place to work, demonstrating genuine respect for the environment, and trying to make a difference in bettering society. Corporate social responsibility programs commonly involve:

- *Efforts to employ an ethical strategy and observe ethical principles in operating the business.* A sincere commitment to observing ethical principles is a necessary component of a CSR strategy simply because unethical conduct is incompatible with the concept of good corporate citizenship and socially responsible business behavior.
- *Making charitable contributions, supporting community service endeavors, engaging in broader philanthropic initiatives, and reaching out to make a difference in the lives of the disadvantaged.* Some companies fulfill their philanthropic obligations by spreading their efforts over a multitude of charitable and community activities; for instance, Microsoft and Johnson & Johnson support a broad variety of community, art, and social welfare programs. Others prefer to focus their energies more narrowly. McDonald's, for example, concentrates on sponsoring the Ronald McDonald House program (which provides a home away from home for the families of seriously ill children receiving treatment at nearby hospitals). Leading prescription drug maker GlaxoSmithKline and other pharmaceutical companies either donate or heavily discount medicines for distribution in the least-developed nations. Companies frequently reinforce their philanthropic efforts by encouraging employees to support charitable causes and participate in community affairs, often through programs that match employee contributions.
- *Actions to protect the environment and, in particular, to minimize or eliminate any adverse impact on the environment stemming from the company's own business activities.* Corporate social responsibility as it applies to environmental protection entails actively striving to be good stewards of the environment. This means using the best available science and technology to reduce environmentally harmful aspects of its operations *below the levels required by prevailing environmental regulations.* It also means putting time and money into improving the environment in ways that extend past a company's own industry boundaries—such as participating in recycling projects, adopting energy conservation practices, and supporting efforts to clean up local water supplies.
- *Actions to create a work environment that enhances the quality of life for employees.* Numerous companies exert extra effort to enhance the quality of life for their employees, both at work and at home. This can include onsite day care, flexible work schedules, workplace exercise facilities, special leaves to care for sick family members, work-at-home opportunities, career development programs and education opportunities, special safety programs, and the like.

- *Actions to build a workforce that is diverse with respect to gender, race, national origin, and other aspects that different people bring to the workplace.* Most large companies in the United States have established workforce diversity programs, and some go the extra mile to ensure that their workplaces are attractive to ethnic minorities and inclusive of all groups and perspectives.

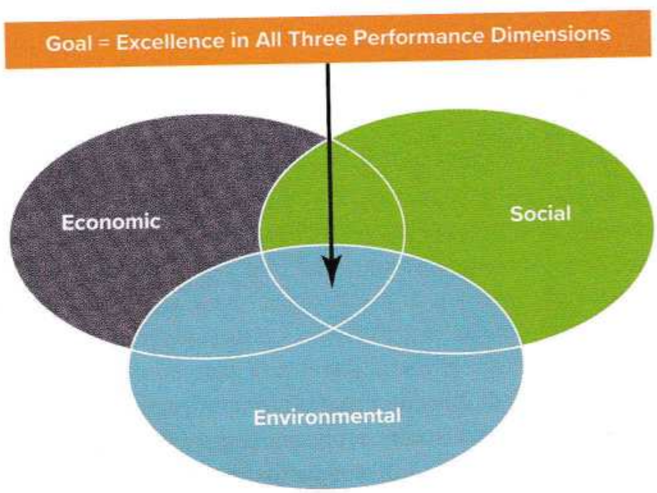
The particular combination of socially responsible endeavors a company elects to pursue defines its **corporate social responsibility strategy.** The specific components emphasized in a CSR strategy vary from company to company and are typically linked to a company's core values. Concepts & Connections 9.2 describes Warby Parker's approach to corporate social responsibility. General Mills builds its CSR strategy around the theme of "nourishing lives" to emphasize its commitment to good nutrition as well as philanthropy, community building, and environmental protection.[12] Starbucks' CSR strategy includes four main elements (ethical sourcing, community service, environmental stewardship, and farmer support), all of which have touch points with the way that the company procures its coffee—a key aspect of its product differentiation strategy.[13]

CORE CONCEPT

A company's **corporate social responsibility strategy** is defined by the specific combination of socially beneficial activities it opts to support with its contributions of time, money, and other resources.

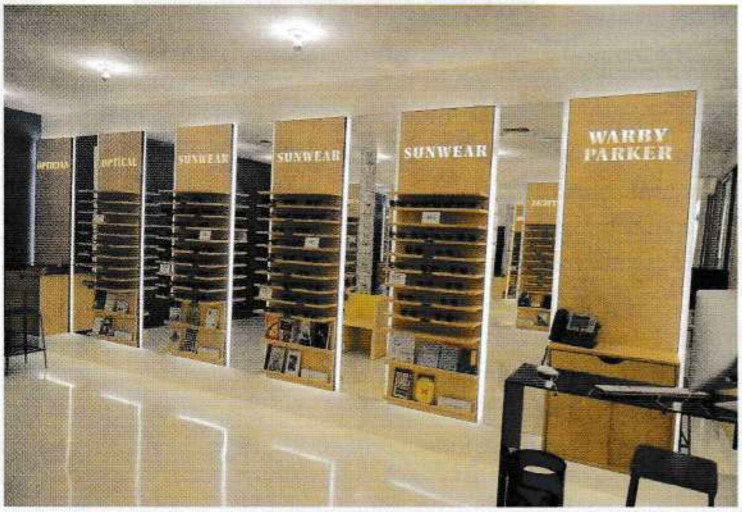
Corporate Social Responsibility and the Triple Bottom Line CSR initiatives undertaken by companies are frequently directed at improving the company's "triple bottom line"—a reference to three types of performance metrics: *economic, social, environmental.* The goal is for a company to succeed simultaneously in all three dimensions, as illustrated in Figure 9.2.[14] The three dimensions of performance are often referred to in terms of the three pillars of "people, planet, and profit." The term *people* refers to the various social initiatives that make up CSR strategies, such as corporate giving and community involvement. *Planet* refers to a firm's ecological impact and environmental practices. The term *profit* has a broader meaning with respect to the triple

FIGURE 9.2
The Triple Bottom Line: Excelling on Three Measures of Company Performance



CONCEPTS & CONNECTIONS 9.2

WARBY PARKER: COMBINING CORPORATE SOCIAL RESPONSIBILITY WITH AFFORDABLE FASHION



Michael Buckner/Getty Images

Since its founding in 2010, Warby Parker has succeeded in selling over one million pairs of high-fashion glasses at a discounted price of $95—roughly 80 percent below the average $500 price tag on a comparable pair of eyeglasses from another producer. With more than 70 stores in the United States, the company has built a brand recognized universally as one of the strongest in the world; it consistently posts a net promoter score (a measure of how likely someone would be to recommend the product) of close to 90—higher than companies like Zappos and Apple.

Corporate responsibility is at Warby Parker's core. For each pair of glasses sold, the company provides international nonprofit partners like VisionSpring with a monthly donation of glasses; with Warby Parker's support, these partners provide basic eye exams and teach community members how to manufacture and sell glasses at very low prices to amplify beneficial effects in their communities. By 2019, the company had distributed more than 5 million pairs of glasses to people in more than 50 countries. The average impact on a recipient of a pair of donated glasses was a 20 percent increase in personal income and a 35 percent increase in productivity.

Efforts to be a responsible company expand beyond Warby Parker's international partnerships. The company voluntarily evaluates itself against benchmarks in the fields of "environment," "workers," "customers," "community," and "governance," demonstrating a nearly unparalleled dedication to outcomes outside of profit. The company is widely seen as an employer of choice and regularly attracts top talent for all roles across the organization. It holds to an extremely high environmental standard, running an entirely carbon neutral operation.

While socially impactful actions matter at Warby Parker, the company is mindful of the critical role of its customers as well. Both founders spent countless hours coordinating partnerships with dedicated suppliers to ensure quality, invested deeply in building a lean manufacturing operation to minimize cost, and sought to build an organization that would keep buyers happy. The net effect is a very economically healthy company—they post around $3,000 in sales per square foot, in line with Tiffany & Co.—with financial stability to pursue responsibilities outside of customer satisfaction.

The strong fundamentals put in place by the firm's founders blend responsibility into its DNA and attach each piece of commercial success to positive outcomes in the world. The company was recently recognized as number one on *Fast Company*'s "Most Innovative Companies" list and continues to build loyal followers—both of its products and its CSR efforts—as it expands.

Note: Developed with Jeremy P. Reich .

Sources: Warby Parker and "B Corp" websites; Max Chafkin, "Warby Parker Sees the Future of Retail," *Fast Company,* February 17, 2015, www.fastcompany.com/3041334/warby-parker-sees-the-future-of-retail (accessed February 22, 2016); and Jenni Avins, "Warby Parker Proves Customers Don't Have to Care about Your Social Mission," *Quartz,* December 29, 2014, https://qz.com/318499/warby-parker-proves-customers-dont-have-to-care-about-your-social-mission/ (accessed February 14, 2016); www.warbyparker.com.

bottom line than it does otherwise. It encompasses not only the profit a firm earns for its shareholders but also the economic impact the company has on society more generally. Triple-bottom-line (TBL) reporting is emerging as an increasingly important way for companies to make the results of their CSR strategies apparent to stakeholders.

What Do We Mean by Sustainability and Sustainable Business Practices?

The term *sustainability* is used in a variety of ways. In many firms, it is synonymous with corporate social responsibility; it is seen by some as a term that is gradually replacing CSR in the business lexicon. Indeed, sustainability reporting and TBL reporting are often one and the same. More often, however, the term takes on a more focused meaning, concerned with the relationship of a company to its *environment* and its use of *natural resources,* including land, water, air, minerals, and fossil fuels. Since corporations are the biggest users of finite natural resources, managing and maintaining these resources is critical for the long-term economic interests of corporations.

For some companies, this issue has direct and obvious implications for the continued viability of their business model and strategy. Pacific Gas and Electric has begun measuring the full carbon footprint of its supply chain to become not only "greener" but also a more efficient energy producer.[15] For other companies, the connection is less direct, but all companies are part of a business ecosystem whose economic health depends on the availability of natural resources. In response, most major companies have begun to change *how* they do business, emphasizing the use of **sustainable business practices,** defined as those capable of meeting the needs of the present without compromising the ability to meet the needs of the future.[16] Many have also begun to incorporate a consideration of environmental sustainability into their strategy-making activities.

Environmental sustainability strategies entail deliberate and concerted actions to operate businesses in a manner that protects and maybe even enhances natural resources and ecological support systems, guards against outcomes that will ultimately endanger the planet, and is therefore sustainable for centuries.[17] Sustainability initiatives undertaken by companies are directed at improving the company's triple bottom line—its performance on economic, environment, and social metrics.[18] Unilever, a diversified producer of processed foods, personal care, and home cleaning products, is among the most committed corporations pursuing environmentally sustainable business practices. The company tracks 11 sustainable agricultural indicators in its processed-foods business and has launched a variety of programs to improve the environmental performance of its suppliers. Examples of such programs include special low-rate financing for tomato suppliers choosing to switch to water-conserving irrigation systems and training programs in India that have allowed contract cucumber growers to reduce pesticide use by 90 percent, while improving yields by 78 percent.

> **CORE CONCEPT**
> **Sustainable business practices** are those that meet the needs of the present without compromising the ability to meet the needs of the future.

> **CORE CONCEPT**
> **Environmental sustainability** involves deliberate actions to protect the environment, provide for the longevity of natural resources, maintain ecological support systems for future generations, and guard against the ultimate endangerment of the planet.

Unilever has also reengineered many internal processes to improve the company's overall performance on sustainability measures. For example, the company's factories have reduced water usage by 50 percent and manufacturing waste by 14 percent through the implementation of sustainability initiatives. Unilever has also redesigned packaging for many of its products to conserve natural resources and reduce the volume of consumer waste. The company's Suave shampoo bottles in the United States were reshaped to save almost 150 tons of plastic resin per year, which is the equivalent of

15 million fewer empty bottles. As the producer of Lipton Tea, Unilever is the world's largest purchaser of tea leaves; the company has committed to sourcing all of its tea from Rainforest Alliance Certified farms by 2015, due to Unilever's comprehensive triple-bottom-line approach toward sustainable farm management. Because 40 percent of Unilever's sales are made to consumers in developing countries, the company also is committed to addressing societal needs of consumers in those countries. Examples of the company's social performance include free laundries in poor neighborhoods in developing countries, startup assistance for women-owned micro businesses in India, and free drinking water provided to villages in Ghana.

Sometimes cost savings and improved profitability are drivers of corporate sustainability strategies. Nike's sustainability initiatives have reduced energy consumption by 24 percent, emissions by 21 percent, water consumption by 13 percent, waste by 35 percent, and chemical usage by 20 percent between 2010 and 2015. Procter & Gamble's Swiffer cleaning system, one of the company's best-selling products, was developed as a sustainable product; not only does the Swiffer system have an earth-friendly design, but it also outperforms less ecologically friendly alternatives. Although most consumers probably aren't aware that the Swiffer mop reduces demands on municipal water sources, saves electricity that would be needed to heat water, and does not add to the amount of detergent making its way into waterways and waste treatment facilities, they are attracted to purchasing Swiffer mops because they prefer Swiffer's disposable cleaning sheets to filling and refilling a mop bucket and wringing out a wet mop until the floor is clean.

Crafting Corporate Social Responsibility and Sustainability Strategies

While striving to be socially responsible and to engage in environmentally sustainable business practices, there's plenty of room for every company to make its own statement about what charitable contributions to make, what kinds of community service projects to emphasize, what environmental actions to support, how to make the company a good place to work, where and how workforce diversity fits into the picture, and what else it will do to support worthy causes and projects that benefit society. A company may choose to focus its social responsibility strategy on generic social issues, but social responsibility strategies linked to its customer value proposition or key value chain activities may also help build competitive advantage.[19]

Ford's sustainability strategy for reducing carbon emissions has contributed to competitive advantage and produced environmental benefits. Its Ford Fusion hybrid is among the least polluting automobiles on the road and ranks first among hybrid cars in terms of fuel economy and cabin size. The Ford Explorer plug-in hybrid SUV launched in Europe in 2019 provides 7-passenger seating capacity and has a 40-kilometer zero-emission city driving range. The development of hybrid models like the Fusion and Explorer have helped Ford gain the loyalty of fuel-conscious buyers and given the company a new green image.

CSR strategies that have the effect of both providing valuable social benefits and fulfilling customer needs in a superior fashion can lead to competitive advantage. Corporate social agendas that address generic social issues may help boost a company's reputation but are unlikely to improve its competitive strength in the marketplace.

Whole Foods Market's environmental sustainability strategy is evident throughout its company value chain and is a big part of its differentiation strategy. The company's procurement policies encourage stores to purchase fresh vegetables from local farmers and screen processed food items for ingredients that the company considers unhealthy or environmentally unsound. The company also has created the Animal Compassion Foundation to develop natural and humane ways of raising farm animals and has converted its vehicles to run on biofuels.

The Business Case for Socially Responsible Behavior

The moral case for why businesses should act in a manner that benefits all of the company's stakeholders–not just shareholders–boils down to "It's the right thing to do." In today's social climate, most business leaders can be expected to acknowledge that socially responsible actions are important and that businesses have a duty to be good corporate citizens. But there is a complementary school of thought that business operates on the basis of an implied social contract with the members of society. According to this contract, society grants a business the right to conduct its business affairs and agrees not to unreasonably restrain its pursuit of a fair profit for the goods or services it sells. In return for this "license to operate," a business is obligated to act as a responsible citizen, do its fair share to promote the general welfare, and avoid doing any harm. Such a view clearly puts a moral burden on a company to operate honorably, provide good working conditions to employees, be a good environmental steward, and display good corporate citizenship.

Whatever the moral arguments for socially responsible business behavior and environmentally sustainable business practices, there are definitely good business reasons why companies should devote time and resources to social responsibility initiatives, environmental sustainability, and good corporate citizenship:

- *Such actions can lead to increased buyer patronage.* A strong, visible social responsibility strategy gives a company an edge in differentiating itself from rivals and in appealing to those consumers who prefer to do business with companies that are good corporate citizens. Whole Foods Market, TOMS, Green Mountain Coffee Roasters, and Patagonia have definitely expanded their customer bases because of their visible and well-publicized activities as socially conscious companies.
- *A strong commitment to socially responsible behavior reduces the risk of reputation-damaging incidents.* Companies that place little importance on operating in a socially responsible manner are more prone to scandal and embarrassment. Consumer, environmental, and human rights activist groups are quick to criticize businesses whose behavior they consider to be out of line, and they are adept at getting their message into the media and onto the Internet. For many years, Nike received stinging criticism for not policing sweatshop conditions in the Asian factories that produced Nike footwear, causing Nike co-founder and former CEO Phil Knight to observe, "Nike has become synonymous with slave wages, forced overtime, and arbitrary abuse."[20] Nike began an extensive effort to monitor conditions in the 800 factories of the contract manufacturers that produced Nike shoes. Nonetheless, Nike has continually been plagued by complaints from human rights activists that its monitoring procedures are flawed and that it is not doing enough to correct the plight of factory workers.
- *Socially responsible actions and sustainable business practices can lower costs and enhance employee recruiting and workforce retention.* Companies with deservedly

good reputations for contributing time and money to the betterment of society are better able to attract and retain employees compared to companies with tarnished reputations. Some employees just feel better about working for a company committed to improving society.[21] This can contribute to lower turnover and better worker productivity. Other direct and indirect economic benefits include lower costs for staff recruitment and training. For example, Starbucks is said to enjoy much lower rates of employee turnover because of its full benefits package for both full-time and part-time employees, management efforts to make Starbucks a great place to work, and the company's socially responsible practices. When a U.S. manufacturer of recycled paper, taking eco-efficiency to heart, discovered how to increase its fiber recovery rate, it saved the equivalent of 20,000 tons of waste paper–a factor that helped the company become the industry's lowest-cost producer. By helping two-thirds of its employees stop smoking and investing in a number of wellness programs for employees, Johnson & Johnson has saved $250 million on its health care costs over a 10-year period.[22]

- *Opportunities for revenue enhancement may also come from CSR and environmental sustainability strategies.* The drive for sustainability and social responsibility can spur innovative efforts that in turn lead to new products and opportunities for revenue enhancement. Electric cars such as the BMW i3 and the Nissan Leaf are one example. In many cases, the revenue opportunities are tied to a company's core products. PepsiCo and Coca-Cola, for example, have expanded into the juice business to offer a healthier alternative to their carbonated beverages. In other cases, revenue enhancement opportunities come from innovative ways to reduce waste and use the by-products of a company's production. Staples has become one of the largest non-utility corporate producers of renewable energy in the United States due to its installation of solar power panels in all of its outlets (and the sale of what it does not consume in renewable energy credit markets).
- *Well-conceived social responsibility strategies work to the advantage of shareholders.* A two-year study of leading companies found that improving environmental compliance and developing environmentally friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts. The stock prices of companies that rate high on social and environmental performance criteria have been found to perform 35 to 45 percent better than the average of the 2,500 companies comprising the Dow Jones Global Index.[23] A review of some 135 studies indicated there is a positive, but small, correlation between good corporate behavior and good financial performance; only 2 percent of the studies showed that dedicating corporate resources to social responsibility harmed the interests of shareholders.[24]

In sum, companies that take social responsibility seriously can improve their business reputations and operational efficiency while also reducing their risk exposure and encouraging loyalty and innovation. Overall, companies that take special pains to protect the environment (beyond what is required by law), are active in community affairs, and are generous supporters of charitable causes and projects that benefit society are more likely to be seen as good investments and as good companies to work for or do business with. Shareholders are likely to view the business case for social responsibility as a strong one, even though they certainly have a right to be concerned about whether the time and money their company spends to carry out its social responsibility strategy outweigh the benefits and reduce the bottom line by an unjustified amount.

KEY POINTS

1. Business ethics concerns the application of ethical principles and standards to the actions and decisions of business organizations and the conduct of their personnel. Ethical principles in business are not materially different from ethical principles in general.
2. The three main drivers of unethical business behavior stand out:
   - Overzealous or obsessive pursuit of personal gain, wealth, and other selfish interests
   - Heavy pressures on company managers to meet or beat earnings targets
   - A company culture that puts profitability and good business performance ahead of ethical behavior
3. Business ethics failures can result in visible costs (fines, penalties, civil penalties arising from lawsuits, stock price declines), the internal administrative or "cleanup" costs, and intangible or less visible costs (customer defections, loss of reputation, higher turnover, harsher government regulations).
4. There are three schools of thought about ethical standards for companies with international operations:
   - According to the *school of ethical universalism,* the same standards of what is ethical and unethical resonate with peoples of most societies, regardless of local traditions and cultural norms; hence, common ethical standards can be used to judge the conduct of personnel at companies operating in a variety of international markets and cultural circumstances.
   - According to the *school of ethical relativism,* different societal cultures and customs have divergent values and standards of right and wrong; thus, what is ethical or unethical must be judged in the light of local customs and social mores and can vary from one culture or nation to another.
   - According to *integrative social contracts theory,* universal ethical principles or norms based on the collective views of multiple cultures and societies combine to form a "social contract" that all individuals in all situations have a duty to observe. Within the boundaries of this social contract, local cultures can specify other impermissible actions; however, universal ethical norms always take precedence over local ethical norms.
5. The term *corporate social responsibility* concerns a company's *duty* to operate in an honorable manner, provide good working conditions for employees, encourage workforce diversity, be a good steward of the environment, and support philanthropic endeavors in local communities in which it operates and in society at large. The particular combination of socially responsible endeavors a company elects to pursue defines its corporate social responsibility (CSR) strategy.
6. The triple bottom line refers to company performance in three realms: economic, social, environmental. Increasingly, companies are reporting their performance with respect to all three performance dimensions.
7. *Sustainability* is a term that is used variously, but most often, it concerns a firm's relationship to the environment and its use of natural resources. Environmentally sustainable business practices are those capable of meeting the needs of the present without compromising the world's ability to meet future needs. A company's environmental sustainability strategy consists of its deliberate actions to protect the environment, provide for the longevity of natural resources, maintain ecological support systems for future generations, and guard against ultimate endangerment of the planet.

8. There are also solid reasons CSR and environmental sustainability strategies may be good business: They can be conducive to greater buyer patronage, reduce the risk of reputation-damaging incidents, lower costs and enhance employee recruitment and retention, and provide opportunities for revenue enhancement. Well-crafted CSR and environmental sustainability strategies are in the best long-term interest of shareholders for the reasons above and because they can avoid or preempt costly legal or regulatory actions.

ASSURANCE OF LEARNING EXERCISES

LO9-1, LO9-4

1. Dell is widely known as an ethical company and has recently committed itself to becoming a more environmentally sustainable business. After reviewing the Corporate Social Responsibility section of Dell's website (www.dell.com/learn/us/en/uscorp1/cr?~ck=mn), prepare a list of 8 specific policies and programs that help the company bring about social and environmental change while still remaining innovative and profitable.

LO9-2, LO9-3

2. Prepare a one- to two-page analysis of a recent ethics scandal using your university library's resources. Your report should *(a)* discuss the conditions that gave rise to unethical business strategies and behavior and *(b)* provide an overview of the costs resulting from the company's business ethics failure.

connect LO9-4

3. Based on the information provided in Concepts & Connections 9.2, explain how Warby Parker's CSR strategy has contributed to its success in the marketplace. How are the company's various stakeholder groups affected by its commitment to social responsibility? How would you evaluate its triple-bottom-line performance?

connect LO9-4

4. The British outdoor clothing company, Páramo, was a Guardian Sustainable Business Award winner in 2016. The company's fabric technology and use of chemicals is discussed at https://www.theguardian.com/sustainable-business/2016/may/27/outdoor-clothing-paramo-toxic-pfc-greenpeace-fabric-technology. Describe how Páramo's business practices allowed it to become recognized for its bold moves. How do these initiatives help build competitive advantage?

connect

EXERCISES FOR SIMULATION PARTICIPANTS

LO9-1

1. What factors build the business case for operating your company in an ethical manner?

LO9-4

2. In what ways, if any, is your company exercising corporate social responsibility? What are the elements of your company's CSR strategy? What changes to this strategy would you suggest?

LO9-3, LO9-4

3. If some shareholders complained that you and your co-managers have been spending too little or too much on corporate social responsibility, what would you tell them?

LO9-4

4. Is your company striving to conduct its business in an environmentally sustainable manner? What specific *additional* actions could your company take that would make an even greater contribution to environmental sustainability?

LO9-4

5. In what ways is your company's environmental sustainability strategy in the best long-term interest of shareholders? Does it contribute to your company's competitive advantage or profitability?

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