BUSINESS and SOCIETY

A Strategic Approach to Social Responsibility & Ethics

Sixth Edition

O. C. Ferrell Auburn University

Debbie Thorne Texas State University

Linda Ferrell Auburn University



Brief Table of Contents

- 1 Social Responsibility Framework 2
- 2 Strategic Management of Stakeholder Relationships 40
- **3** Corporate Governance 74
- 4 Legal, Regulatory, and Political Issues 110
- 5 Business Ethics and Ethical Decision-Making 152
- 6 Strategic Approaches to Improving Ethical Behavior 184
- 7 Employee Relations 222
- 8 Consumer Relations 260
- 9 Community Relations and Strategic Philanthropy 286
- 10 Technology Issues 320
- 11 Sustainability Issues 358
- **12** Social Responsibility in a Global Environment 402
 - Case 1 Uber Faces Ethical and Regulatory Challenges 428
 - Case 2 The Mission of CVS: Corporate Social Responsibility and Pharmacy Innovation 439
 - Case 3 Belle Meade Plantation: The First Nonprofit Winery Engages in Social Entrepreneurship 449
 - Case 4 Multilevel Marketing Under Fire: Herbalife Defends Its Business Model 456

Case 5 Hobby Lobby: Balancing Stakeholders and Religious Freedom in Business Decisions 470	
Case 6 Starbucks' Mission: Social Responsibility and Brand	
Strength 477	
Case 7 Lululemon: Encouraging a Healthier Lifestyle 486	
Case 8 The Hershey Company and West African Cocoa	
Communities 493	
Case 9 The Coca-Cola Company Struggles with Ethical	
Crises 501	
Case 10 Enron: Questionable Accounting Leads to	
Collapse 512	
Case 11 The Complexity of Intellectual Property 521	
Case 12 Salesforce.com: Responsible Cloud Computing 532	
Case 13 Mattel Responds to Ethical Challenges 538	
Case 14 Home Depot Implements Stakeholder	
Orientation 547	
Case 15 New Belgium Brewing: Engaging in Sustainable Social	
Responsibility 555	
Notes 563	
Glossary 598	

Index 602

Table of Contents

Preface xvii

SOCIAL RESPONSIBILITY FRAMEWORK 2

Social Responsibility Defined 4

Social Responsibility Applies to All Types of Businesses 7 Social Responsibility Needs a Strategic Focus 8 Social Responsibility Fulfills Society's Expectations 10 Social Responsibility Requires a Stakeholder Orientation 14

Development of Social Responsibility 15

Global Nature of Social Responsibility 19

Benefits of Social Responsibility 22

Trust 23 Customer Loyalty 24 Employee Commitment 25 Shareholder Support 25 The Bottom Line: Profits 26 National Economy 27

Framework for Studying Social Responsibility 29

Strategic Management of Stakeholder Relationships 31 Corporate Governance 31 Legal, Regulatory, and Political Issues 31 Business Ethics and Strategic Approaches to Improving Ethical Behavior 31 Employee Relations 32 Consumer Relations 32 Community and Philanthropy 32 Technology Issues 32 Sustainability Issues 33 Global Social Responsibility 33

Summary 35 Key Terms 38 Discussion Questions 38 Experiential Exercise 38 What Would You Do? 38

2 STRATEGIC MANAGEMENT OF STAKEHOLDER RELATIONSHIPS 40

Stakeholders Defined 42

Stakeholder Issues and Interaction 44

Identifying Stakeholders 46 A Stakeholder Orientation 49 Stakeholder Attributes 50

Performance with Stakeholders 53

Reputation Management 54 Crisis Management 57

Development of Stakeholder Relationships 62

Implementing a Stakeholder Perspective in Social Responsibility 63

Step 1: Assessing the Corporate Culture 64
Step 2: Identifying Stakeholder Groups 64
Step 3: Identifying Stakeholder Issues 64
Step 4: Assessing the Organization's Commitment to Social Responsibility 65
Step 5: Identifying Resources and Determining Urgency 65
Step 6: Gaining Stakeholder Feedback 65

Link between Stakeholder Relationships and Social Responsibility 66

Summary 69 Key Terms 72 Discussion Questions 72 Experiential Exercise 72 What Would You Do? 72

3

CORPORATE GOVERNANCE 74

Corporate Governance Defined 76

Corporate Governance Framework 77

History of Corporate Governance 81 Finance Reforms 82

Corporate Governance and Social Responsibility 83

Issues in Corporate Governance Systems 86

Boards of Directors 88 Shareholder Activism 92 Investor Confidence 93 Internal Control and Risk Management 93 Executive Compensation 98

Corporate Governance Around the World 100

Future of Corporate Governance 102

Summary 105 Key Terms 108 Discussion Questions 108 Experiential Exercise 109 What Would You Do? 109

4 LEGAL, REGULATORY, AND POLITICAL ISSUES 110

Government's Influence on Business 112

The Rationale for Regulation 114 Laws and Regulations 121 Global Regulation 126 Costs and Benefits of Regulation 128 Benefits of Regulation 129

The Contemporary Political Environment 131

Corporate Approaches to Influencing Government 135

The Government's Strategic Approach for Legal and Ethical Compliance 137

Federal Sentencing Guidelines for Organizations 137 Sarbanes-Oxley (SOX) Act 141 Dodd-Frank Wall Street Reform and Consumer Protection Act 143

Summary 145 Key Terms 148 Discussion Questions 149 Experiential Exercise 149 What Would You Do? 149

5 BUSINESS ETHICS AND ETHICAL DECISION-MAKING 152

The Nature of Business Ethics 154

Foundations of Business Ethics 156

Recognizing an Ethical Issue 158

Ethical Issues in Business 159

Abusive or Intimidating Behavior 160 Misuse of Company Time and Resources 160 Conflict of Interest 161 Bribery 162 Discrimination and Sexual Harassment 162 Fraud 164 Privacy 164

Understanding the Ethical Decision-Making Process 165

Individual Factors 166 Organizational Relationships 169 Opportunity 174

Developing an Ethical Culture 176

Organizational Values 176 Normative Considerations of Ethical Decision-Making 177 Managing the Ethical Culture: Variations of Employee Conduct 178

Summary 180 Key Terms 182 Discussion Questions 183 Experiential Exercise 183 What Would You Do? 183

STRATEGIC APPROACHES TO IMPROVING ETHICAL BEHAVIOR 184

Scope and Purpose of Organizational Ethics Programs 187 Codes of Conduct 190 Ethics Officers 193

Ethics Training and Communication 194

Establishing Systems to Monitor and Enforce Ethical Standards 196

Systems to Monitor and Enforce Ethical Standards 197 Observation and Feedback 197 Whistle-blowing 198

Continuous Improvement of the Ethics Program 199

Institutionalization of Business Ethics 200

Voluntary, Core Practices, and Mandatory Dimensions of Ethics Programs 200

Ethical Leadership 201

Leadership Power 204 The Role of an Ethical Corporate Culture 206

Requirements of Ethical Leadership 207

Benefits of Ethical Leadership 209 Leadership Styles 210 Leader-Follower Relationships 213 Ethical Leadership Communication 213

Summary 217 Key Terms 219 Discussion Questions 219 Experiential Exercise 220 What Would You Do? 220

EMPLOYEE RELATIONS 222

Employee Stakeholders 224

Responsibilities to Employees 224

Economic Issues 225 Legal Issues 232 Ethical Issues 243 Philanthropic Issues 250

Strategic Implementation of Responsibilities to Employees 250

Summary 255 Key Terms 257 Discussion Questions 257 Experiential Exercise 258 What Would You Do? 258

CONSUMER RELATIONS 260

Consumer Stakeholders 262

Responsibilities to Consumers 263

Economic Issues 263 Legal Issues 266 Ethical Issues 273 Philanthropic Issues 278

Strategic Implementation of Responsibilities to Consumers 280

Summary 282 Key Terms 284 Discussion Questions 284 Experiential Exercise 284 What Would You Do? 285

COMMUNITY RELATIONS AND STRATEGIC PHILANTHROPY 286

Community Stakeholders 288

Responsibilities to the Community 292

Economic Issues 294 Legal Issues 295 Ethical Issues 296 Philanthropic Issues 297

Philanthropic Contributions 299

Strategic Philanthropy Defined 300

Strategic Philanthropy and Social Responsibility 302

Strategic Philanthropy versus Cause-Related Marketing 304

Social Entrepreneurship and Social Responsibility 305

History of Social Entrepreneurship 306 Types of Social Entrepreneurship 307 Social Entrepreneurship and Strategic Philanthropy 308

Benefits of Strategic Philanthropy 310

Implementation of Strategic Philanthropy 311

Top Management Support 312 Planning and Evaluating Strategic Philanthropy 312

Summary 315 Key Terms 318 Discussion Questions 318 Experiential Exercise 318 What Would You Do? 319

O TECHNOLOGY ISSUES 320

The Nature of Technology 322

Characteristics of Technology 322 Effects of Technology 324

Technology's Influence on the Economy 325 Economic Growth and Employment 325

xiii

Economic Concerns about the Use of Technology 327

Technology's Influence on Society 328

The Internet 328 Privacy 331 Intellectual Property 339 Health and Biotechnology 343

Strategic Implementation of Responsibility for Technology 349

The Role of Government 350 The Role of Business 350 Strategic Technology Assessment 351

Summary 353 Key Terms 355 Discussion Questions 355 Experiential Exercise 356 What Would You Do? 356

11 SUSTAINABILITY ISSUES 358

Defining Sustainability 360

How Sustainability Relates to Social Responsibility 361

Global Environmental Issues 362

Atmospheric Issues 363 Water Issues 369 Land Issues 371 Biodiversity 375 Genetically Modified Organisms 376

Environmental Policy and Regulation 379

Environmental Protection Agency 380 Environmental Legislation 381

Alternative Energy 385

Wind Power 386 Geothermal Power 386 Solar Power 387 Nuclear Power 387 Biofuels 388 Hydropower 388

Business Response to Sustainability Issues 389

Supply Chain Issues 389

Green Marketing 390 Greenwashing 391

Strategic Implementation of Environmental Responsibility 392

Recycling Initiatives 393 Stakeholder Assessment 393 Risk Analysis 394 The Strategic Environmental Audit 395

Summary 396 Key Terms 399 Discussion Questions 400 Experiential Exercise 400 What Would You Do? 400

12 SOCIAL RESPONSIBILITY IN A GLOBAL ENVIRONMENT 402

Cultural Intelligence 404

Global Stakeholders 406

Shareholder Relations and Corporate Governance 409 Employee Relations 410 Consumer Relations 414

Global Development 416

Conventional Business Partnerships 419 Corporate Social Responsibility Partnerships 420 Corporate Accountability Partnerships 420 Social Economy Partnerships 421

Global Reporting Initiative 423

Summary 424 Key Terms 426 Discussion Questions 427 Experiential Exercise 427 What Would You Do? 427

- Case 1 Uber Faces Ethical and Regulatory Challenges 428
- Case 2 The Mission of CVS: Corporate Social Responsibility and Pharmacy Innovation 439
- Case 3 Belle Meade Plantation: The First Nonprofit Winery Engages in Social Entrepreneurship 449

Case 4	Multilevel Marketing Under Fire: Herbalife Defends Its
	Business Model 456
Case 5	Hobby Lobby: Balancing Stakeholders and Religious
	Freedom in Business Decisions 470
Case 6	Starbucks' Mission: Social Responsibility and Brand
	Strength 477
Case 7	Lululemon: Encouraging a Healthier Lifestyle 486
Case 8	The Hershey Company and West African Cocoa
	Communities 493
Case 9	The Coca-Cola Company Struggles with Ethical
	Crises 501
Case 10	Enron: Questionable Accounting Leads to Collapse 512
Case 11	The Complexity of Intellectual Property 521
Case 12	Salesforce.com: Responsible Cloud Computing 532
Case 13	Mattel Responds to Ethical Challenges 538
Case 14	Home Depot Implements Stakeholder Orientation 547
Case 15	New Belgium Brewing: Engaging in Sustainable Social
	Responsibility 555
Notes	563

Glossary 598

Index 602