Preface

Why This Book?

This edition of *Business & Society: A Strategic Approach to Social Responsibility& Ethics* provides a comprehensive, practical foundation for understanding how companies can integrate ethical, social, legal, and environmental considerations into strategic decision-making. As one of the first business and society textbooks to use a strategic framework that integrates business and society into organizational strategies, we remain committed to preparing students for the complex demands of modern business. Social responsibility is central to how organizations operate, with strong ties to financial performance. As a result, business and society courses are increasingly important in preparing students for their careers. Stakeholders—from investors to consumers to employees—expect companies to act with purpose and accountability.

This book is designed to help instructors demonstrate 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. As expectations around corporate behavior continue to evolve, this book reflects the most up-to-date thinking and practices in the field. We have worked diligently to incorporate current knowledge, highlight innovative approaches to corporate responsibility, and showcase emerging trends across industries.

Business & Society is one of the most readable and teachable texts available for teaching corporate social responsibility. A differentiating feature of this book is its focus on the role that social responsibility plays 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 equips students to lead with integrity, think critically about corporate impact, and navigate the responsibilities they will encounter in real-world organizations. We provide current examples, engaging cases, and practical learning tools that reflect the complexity of today's business landscape. Ultimately, this book assumes that students are not just observers of corporate responsibility, but future leaders who will shape and improve it.

New to This Edition

This edition includes new examples, vignettes, and cases with updated chapters reflecting current developments in social responsibility. New topics include agency theory, resource dependency theory, buycotts, consumer activism, point-of-sale fundraising, in-kind donations, carbon capture technology, and reverse logistics. The impact of emerging technologies, such as generative artificial intelligence (AI) and nanotechnology, and the environmental costs of innovation are explored in depth. Chapters also address updated regulatory developments, including the California Consumer Privacy Act (CCPA), the European Union's Digital Services Act (DSA), and other privacy regulations around the globe. Expanded coverage includes antitrust, tariffs, director independence, workforce trends, automation, food security, and consumer fraud.

Opening vignettes at the start of each chapter address a variety of issues related to the chapter content, including emerging technology, stakeholder capitalism, deregulation, and whistleblowing, featuring organizations such as Microsoft, the U.S. Chamber of Commerce, and American Express. Additional real-world examples of corporate social responsibility are provided in the Ethical

Responsibilities and The Earth in the Balance boxed features. The Ethical Responsibilities boxed features include ethical challenges in different areas of business, including governance, finance, and hiring, and discuss topics such as price gouging, compliance, and fraud. The Earth in the Balance boxed readings focus on social responsibility related to sustainability issues and discuss organizations such as General Mills, Unilever, and the Rainforest Alliance.

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 environmental, social, and governance (ESG) investing, social media regulation, corporate political spending, data privacy, and job automation.

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 Aflac and ethics, the collapse of cryptocurrency exchange FTX, Chevron and sustainability, Shein and fast fashion, Google and generative AI, and Toshiba and mismanagement.

Our Approach

Professors who teach business and society courses come from a variety of backgrounds, including law, management, marketing, philosophy, and many others. Such a wide range of professional experience 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 are 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 high-level managers and granted the same planning time, priority, and management attention as any other business priority. Therefore, the framework in the text begins with a social responsibility philosophy, incorporates the four types of responsibilities, addresses a range of stakeholder groups, and leads to measurable performance outcomes. The strategic orientation of the book prepares students to understand how social responsibility can create value for both business and society.

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. Corporate governance is presented as essential to social responsibility and risk management, particularly in light of past corporate scandals.

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. 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. It distinguishes traditional philanthropy from strategic philanthropy, which integrates employee engagement and business capabilities into social initiatives.

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 AI and its enablers, such as big data, blockchain, drones, and robotics. The chapter emphasizes the need for businesses and governments to proactively assess and manage the societal impact of technology.

Chapter 12, "Sustainability and the Environment," explores the significant environmental issues business and society face today, including air pollution, climate change, 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 go beyond compliance to lead on sustainability.

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 Vignettes, Boxed Features, 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 boxed features and examples that shed more light on how social responsibility works in today's business. Learning objectives, a chapter summary, boldfaced key terms, and discussion questions at the end of each chapter help direct students' attention to key points.

End-of-Chapter Exercises

Experiential exercises at the end of each chapter help students apply social responsibility concepts and ideas to business practice. Each exercise includes a clearly defined objective to guide learning and an assignment that encourages practical application. Most of the exercises involve research into the activities, programs, and philosophies that companies and organizations use to implement social responsibility today. Designed for higher-level learning, these exercises 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.

"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 while at work. At the end of the exercise, students must consider issues such as algorithm accountability, conflicts of interest, transparency, and time theft.

Responsible Business 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 dialogue 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 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 2025. Students will find these cases to be pivotal to their understanding of the complexity of social responsibility in practice.

Sage Vantage Features

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Assignable video activities and reading activities in Vantage align with learning objectives, reinforcing fundamental concepts in every chapter. With automatic assessment integration into your gradebook, these resources provide an ideal platform for students to hone their critical thinking and application skills by applying chapter concepts to real-world scenarios.

Additional Teaching Resources

Visit **collegepublishing.sagepub.com** to find the teaching materials designed to accompany this textbook. On this site, you will find an array of materials that will save you time and help you keep students engaged, including:

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- **Test banks**, aligned to Bloom's Taxonomy, that provide a diverse range of test items, including multiple choice, true/false, and essay questions;
- The **instructor's manual**, which offers a wide range of customizable teaching and learning content for all chapters, including:
  - Learning objectives
  - Key terms and definitions
  - A detailed chapter outline
  - Discussion questions and answers
  - Answers to the end-of-chapter exercises listed in the book
  - Discussion starters
  - Case notes
- **PowerPoint® slides** that offer a flexible, accessible, and customizable solution for creating multimedia lectures;
- **Role-play exercises** that are built around a fictitious yet plausible scenario or case to support higher-level learning objectives and require group decision-making skills; and
- **Tables and figures** from the book are available to support lecture preparation and class discussions.

Authors' Website

O. C. Ferrell and Linda Ferrell 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. Access this website at https://harbert.auburn.edu/research-faculty/centers/center-for-ethical-organizational-cultures/.

Chapter 1

Social Responsibility Framework

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Learning Objectives

1.1 Explain the concept of social responsibility

1.2 Summarize the development of social responsibility

1.3 Examine the global nature of social responsibility

1.4 Discuss the benefits of social responsibility

1.5 Construct a framework for understanding social responsibility

Microsoft Drives Change in a Digital World

As the digital landscape evolves, so too does the responsibility of the tech giants shaping it. Microsoft, a global leader in technology and one of the largest companies in the world, is using its influence to establish sustainable business practices, empower local communities, and reduce its carbon footprint, all while tackling the challenges that come with building the next generation of digital infrastructure.

Microsoft set a goal of becoming carbon negative by 2030, meaning the company aims to remove more carbon from the environment than it emits. As part of this vision, the company has taken proactive steps to address its emissions that stem from the company's supply chain and artificial intelligence (AI) infrastructure, as well as its hardware and device lifecycle, which account for the majority of its total carbon footprint. Microsoft has said AI infrastructure has been its biggest challenge in reaching its sustainability goals because these emissions have grown significantly as the company builds data centers to fulfill the surging demand for AI.

To meet its ambitious climate goals, Microsoft has introduced a series of sustainability initiatives, including a mandate for its largest suppliers to use 100 percent carbon-free energy by 2030, a move that is expected to have a ripple effect across the industry. In addition, Microsoft's supplier decarbonization team plays a pivotal role in addressing emissions from the company's cloud and AI infrastructure. The tech giant says it will work with its suppliers to help them meet the requirements. By investing in energy-efficient technologies and green data centers, Microsoft is working to reduce its own carbon footprint while helping suppliers and the broader tech ecosystem meet sustainability targets.

As Microsoft continues to expand its global network of data centers to support AI growth, the company recognizes that it must not only focus on the environmental sustainability of these facilities but also consider their impact on the local communities in which they operate. The company's Datacenter Community Pledge outlines its commitment to ensuring that its data centers contribute positively to both the environment and the economy. This initiative aims to create jobs, support local sustainability efforts, and provide digital skills training and STEM education to underserved communities.

Microsoft has also been at the forefront of advocating for the responsible use of AI, ensuring that its technology serves both society and the environment. The company has invested in developing ethical guidelines for AI use, ensuring that its products align with the company's core values of responsibility, transparency, and fairness. By addressing emissions, sustainable infrastructure, community, and ethics, Microsoft could set a new standard for social responsibility in the tech industry and beyond.[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.

Like Microsoft, many companies are trying, with varying results, to meet the many economic, legal, ethical, and philanthropic responsibilities they now face. 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.

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 the terminology that people use when they talk about expectations for business. To this end, we begin by defining social responsibility. 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.

In most societies, businesses are granted a **license to operate**, which is permission to conduct a business activity, subject to regulation by the licensing authority. 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, Amazon, the largest online retailer in the world, has faced criticism over the years for not fully meeting its social, environmental, and governmental responsibilities, particularly in relation to labor practices and waste management. Now, Amazon has shifted its approach to corporate social responsibility under CEO Andy Jassy's leadership, moving beyond founder Jeff Bezos's focus on efficiency. The company has invested significantly in social responsibility, aiming to build goodwill and credibility in the face of increasing demands from stakeholders, including employees, customers, and government officials.[2] The goal is to address these issues and prevent negative outcomes in the future.

A large multinational corporation may face public backlash from protestors who oppose their actions or policies. For example, Bud Light faced significant backlash after partnering with a transgender influencer, leading to calls for boycotts from some consumers who disagreed with the collaboration. At the same time, Bud Light was also criticized for its weak response to the backlash, with critics arguing that the company failed to stand firmly behind its partnership.[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 a 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, H&R Block was accused of deceptive advertising by the Federal Trade Commission (FTC) when it promoted services as free when many customers were ineligible. The company agreed to pay a $7 million fine to compensate affected consumers and implement changes to its business practices, including disclosing the percentage of customers eligible for free services in its ads.[4] According to the FTC's Bureau of Consumer Protection, deceptive business practices harm both consumers and competitors that play by the rules.

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 from the Ethisphere Institute indicates that the world's most ethical companies consistently financially outperform a comparable index of large-cap companies.[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 (see Table 1.1).

Table 1.1 ▪ Main Areas of Social Responsibility

Area	Description	Examples in Business
Social issues	Challenges or problems that affect individuals, communities, and society as a whole.	Companies implementing fair hiring practices and diversity initiatives.
Consumer protection	Laws and policies designed to safeguard consumers from unfair or deceptive business practices.	Labeling requirements on food products to ensure transparency for consumers.
Sustainable business practices	Strategies and actions that companies implement to minimize environmental impact.	Companies using biodegradable packaging and committing to carbon neutrality.
Corporate governance	Formal systems of oversight of, accountability for, and control over organizational decisions and resources.	Independent board audits to prevent fraud and financial mismanagement.
Philanthropy	Corporate giving through donations, volunteerism, nonprofit partnerships, or internal programs.	A retail chain donating a percentage of profits to local education programs.
Legal responsibilities	The most basic expectation that a company must comply with the law.	Ensuring proper worker classification to comply with labor laws.
Employee well-being	The health and wellness of employees, including how workers feel about their work and their working environment.	Offering mental health support and paid parental leave for employees.

First, **social issues** refer to challenges or problems that affect individuals, communities, and society as a whole. In a business context, social issues encompass the responsibilities companies owe to society, focusing on the common good and societal welfare. Equal rights, gender roles, marketing to vulnerable populations, data protection, and internet tracking are examples of social issues common in business.

Second, **consumer protection laws** refer to laws and policies designed to safeguard consumers from unfair or deceptive business practices. These 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 their responsibilities and rights.[6] As a society, it is important to provide legal protection and education for consumers and businesses alike.

Third, **sustainable business practices** refer to strategies and actions that companies implement to minimize environmental impact. Key aspects include reducing waste, lowering carbon emissions, and sourcing materials responsibly. These efforts not only benefit the planet but can also enhance brand reputation, improve operational efficiency, and meet growing consumer demand for eco-friendly products.

Fourth, **corporate governance** refers to formal systems of oversight of, accountability for, and control over organizational decisions and resources. 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.

Fifth, **philanthropy** refers to corporate giving through donations, volunteerism, nonprofit partnerships, or internal programs. Companies often combine these approaches to align their giving with business goals. For example, outdoor recreation company Patagonia has an in-house program called Patagonia Action Works that connects its customers with environmental nonprofits that support issues such as biodiversity and climate change.[7] This allows the company to maximize its reach and deepen its social impact.

Sixth, **legal responsibility** is the most basic expectation that a company must comply with the law. 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]

Finally, **employee well-being** refers to the health and wellness of employees, including how workers feel about their work and their working environment. It 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.

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, 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. Our definition of social responsibility 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.

Figure 1.1 ▪ Major Emphases of Social Responsibility

Source: ©O. C. Ferrell, 2027.

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 Apple, HP, or IKEA, can have far-reaching impacts on improving education, health care, energy and climate change, and sustainability. But even smaller firms, such as Portland-based Trailhead Coffee Roasters, 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 who are served, and the community—affect their reputation. Nonprofits are not immune from ethical misconduct. For example, the Providence Foundation of San Francisco, which provides homeless services, was accused of stealing $105,000 from the city. It allegedly submitted fake invoices tied to improvement projects that were never completed. The city placed the nonprofit on a corrective plan and referred it to a financial management coaching program for stronger financial oversight.[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 45 percent of U.S. employees and generate more than 35 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.

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. Some companies establish values that create a strong culture both within and outside the company and 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.

Mission and vision statements can provide organizations with a clear sense of purpose and direction and serve as a foundation for strategic decision-making and long-term growth. Though these terms are often used interchangeably, they serve distinct roles in guiding an organization. A **mission statement** defines the company's core purpose and its reason for existence. It focuses on what the company does, who it serves, and how it differentiates itself. In contrast, a **vision statement** describes a company's long-term aspirations. While mission statements are action-oriented and grounded in the present, vision statements are aspirational, focusing on long-term goals. Together, they shape a company's strategic direction and decision-making. Table 1.2 highlights the mission and vision statements from a selection of major companies.

Table 1.2 ▪ Mission and Vision Statement Examples

Company	Mission Statement	Vision Statement
General Motors	We pioneer the innovations that move and connect people to what matters.	A world with zero crashes, zero emissions, and zero congestion.
IKEA	To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.	To create a better everyday life for the many people.
Johnson & Johnson Vision	To help our patients see their world clearly.	To be the leader in eye health for a patient's lifetime.
REI	A consumer co-operative that exists to inspire and equip everyone to get outside.	To inspire, educate and outfit for a lifetime of outdoor adventure and stewardship.
The Walt Disney Company	Entertain, inform and inspire people around the globe through the power of unparalleled storytelling, reflecting the iconic brands, creative minds and innovative technologies that make ours the world's premier entertainment company.	To be one of the world's leading producers and providers of entertainment and information.

Source: General Motors, "About Us," https://www.gm.com/company/about-us (accessed May 28, 2025); IKEA, "The IKEA Vision and Values," https://www.ikea.com/us/en/this-is-ikea/about-us/the-ikea-vision-and-values-pub9aa779d0/ (accessed May 28, 2025); Johnson & Johnson Vision, "About," https://www.clearvisionforyou.com/en-us/about-vision/ (accessed May 28, 2025); REI, "About Us," https://www.rei.com/about-rei (accessed May 28, 2025); The Walt Disney Company, https://thewaltdisneycompany.com (accessed May 28, 2025).

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, companies often develop and implement corporate-wide strategic initiatives, including local community engagement, volunteerism, environmental initiatives, stakeholder engagement, and a commitment to diversity and inclusion. For example, to support its vision of a world with zero crashes, emissions, and congestion, General Motors has four focus areas to guide its strategy: electrification, vehicle safety, autonomous transportation, and sustainability. To enhance energy efficiency, the company has integrated ambitious energy-reduction targets into its business strategy and implemented various energy-saving programs and initiatives.[15] As this example demonstrates, effective social responsibility requires both words and actions.

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 design products that minimize environmental impact to meet consumer demand for sustainability, while marketers can highlight these eco-friendly features in advertising campaigns or on product packaging to reinforce the brand's commitment to responsible practices. Consumer demand for an environmentally sustainable product may stimulate a stronger company interest in assuming environmental leadership in all aspects of its operations. Unilever, a multinational consumer goods company, advocates for widescale change by helping suppliers take climate action, adopting a regenerative approach to farming, improving packaging sustainability, cutting emissions, and using cleaner energy in its operations.[16] Social responsibility is a collective effort that requires different departments within a company—as well as external stakeholders like customers, suppliers, and communities—to work together. The outcomes of these efforts also benefit those same groups. We discuss some of these benefits later in the 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, Delta Air Lines has a chief sustainability officer, the American Heart Association has a vice president of community impact, and CVS Health has a chief governance officer. Delta's sustainability officer is leading the company toward its objective of reaching net-zero emissions by 2050.[17] 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. **Corporate culture**, sometimes called organizational culture, refers to shared values, attitudes, and beliefs that characterize members of an organization. Culture is integrated with company-wide 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 is given to any other company initiative, such as continuous improvement, cost management, investor relations, research and development, human resources, or marketing research.

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 1.3). To varying degrees, the four types, or stages, are required, expected, and/or desired by society.[18]

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 acts in a way that is seen as irresponsible by customers, special-interest groups, or other businesses, these groups may urge elected representatives to create legislation to regulate the company's behavior or may take legal action. For example, Apple agreed to pay a $95 million settlement to resolve a proposed class action lawsuit alleging that its Siri voice assistant violated user privacy when it unintentionally recorded conversations and shared them with third parties. At the time, Apple employed third-party contractors to listen to device recordings, a practice that has since been discontinued.[19] If a company does not abide by the law, there will be negative consequences.

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, Canon, a photography and imaging solutions company, values mutual respect, integrity, fairness, and communication.[20] **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.

Table 1.3 ▪ Social Responsibility Requirements

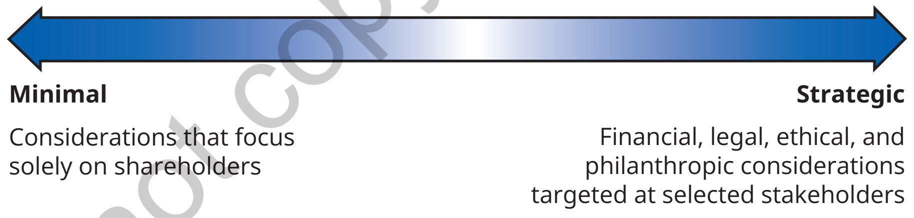
Stages	Examples
Stage 1: Financial Viability	The company offers investors a healthy return on investment, including paying dividends.
Stage 2: Compliance with Legal and Regulatory Requirements	The company specifies in its code of conduct that payments made to foreign government officials must be lawful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

Many firms and industries have chosen to go beyond these basic laws in an effort to act responsibly. A **code of ethics**, also called a code of conduct, is a written collection of the rules, principles, values, and expectations of employee behavior. The Direct Selling Association (DSA), for example, has established a code of ethics that applies to all individual and company members of the association. 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.

In Stage 4 are **philanthropic activities**, which are efforts made by a company to improve 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 $550 million over the last decade in veteran causes and has spent more than $50 million training and certifying separating military personnel, high school students, and underserved youths to become skilled tradespeople.[21]

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.[22] 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**, a business approach where a company considers the interests and concerns of all parties affected by the success or failure of an organization. Firms that focus only on shareholders and the bottom line operate from a legal or compliance perspective.[23] 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, downplayed the long-term patient risks to the public, and paid pharmacy benefit managers not to restrict the flow of painkiller prescriptions. The pharmaceutical industry's profit-maximization strategy, which resulted in high investor returns, led to unintended consumer deaths.[24]

Figure 1.2 ▪ Social Responsibility Continuum



Resource-advantage theory is a theory of competition that emphasizes a firm's tangible and intangible resources as key drivers of sustained competitive advantage.[25] Tangible resources include physical assets like real estate, equipment, raw materials, and distribution networks, while intangible resources include ethics, social responsibility, brand reputation, and organizational culture. 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 support organizations that exhibit socially responsible behavior. For instance, Klean Kanteen, a water bottle and food container company, has a positive reputation for being socially responsible. The family- and employee-owned stainless steel water bottle company focuses on the areas of circular design, climate action, employee well-being, supplier relations, and product safety.[26] Thus, a company's socially responsible behavior can become a resource advantage.

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, has a vision to "transform the world into a healthy, sustainable, and equitable place for the next seven generations—and beyond." 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, as discussed earlier in this chapter. 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.

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 by partnering with other organizations with similar value systems.[30]

Development of Social Responsibility

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 the 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 high-level managers. This total discretion meant that these firms' high-level 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 formal systems of oversight of, accountability for, and control over organizational decisions and resources that are 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 two-thirds 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 resisting 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 the 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 the empowerment of lower-level employees.

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 in every five Americans, but by the 1990s, they employed only one in 10. 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. The 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 at 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 (PCAOB) 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. These topics, along with their implications for corporate governance and accountability, will be discussed in detail in Chapter 5.

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 1.4 describes some of the corporations and banks that collapsed in the 2008 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 5. The financial crisis and the collapse of many well-known institutions led to a renewed interest in business ethics and social responsibility.

Table 1.4 ▪ Corporations and Banks Involved in the 2008 Financial Crisis

Organization	Outcome
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.
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.
General Motors (GM)	Declared bankruptcy and required a government bailout of $49.5 billion to reorganize. The government sold its last shares in GM in 2013 and is estimated to have lost more than $10 billion on its investment.
Washington Mutual	Its banking subsidiaries were sold by the Federal Deposit Insurance Corporation to J. P. Morgan for $1.9 billion.

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 had 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, Meta, and Microsoft voluntarily continued to pay contingent workers who 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.

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. **Environmental, social, and governance (ESG)** is a framework for evaluating 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. Figure 1.3 provides an illustration of the ESG framework.

- *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 and corporate social responsibility are related but not interchangeable concepts. ESG refers specifically to the measurable criteria used to evaluate a company's impact. In contrast, social responsibility encompasses a broader view of voluntary commitments and actions to address social, environmental, and economic impacts. While both emphasize ethical conduct and societal impact, ESG is more investor-focused and data-driven, whereas social responsibility is typically a strategic approach or an ideal.

ESG has been widely adopted in the financial industry. Many investors and organizations advocate for ESG reporting, citing its potential to enhance transparency and create a standardized approach to corporate social responsibility. Financial services firms have created ESG scoring tools to assist investors and launched ESG funds, including bonds, mutual funds, index funds, and exchange-traded funds (ETFs), enabling investors to invest in a group of socially responsible companies. ESG assets under management will exceed $40 trillion globally by the end of the decade, according to Bloomberg.[45] 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]

ESG is not without its criticisms. The lack of standardized reporting and different opinions among business leaders on how to measure ESG contribute to these concerns. The framework could lead to greenwashing, where companies create a misleadingly positive image about their environmental efforts. Additionally, some argue that businesses should prioritize profits over social and environmental matters, with certain lawmakers and business leaders advising against corporate involvement in social, political, and environmental issues.

Despite criticism of ESG, these concepts are not going away. As consumers, investors, and regulators increasingly demand greater accountability from businesses, the focus on sustainability, social impact, and corporate governance continues to intensify. In the face of growing polarization surrounding ESG, some companies have adjusted the language and terminology they use both internally and externally to carefully navigate differing perspectives. While challenges exist in measuring and implementing the framework effectively, the broader movement toward responsible business practices is expected to persist. Companies are finding that integrating social responsibility into their strategies not only helps address societal issues but can also create long-term value, making these approaches an ongoing priority in corporate agendas.

Figure 1.3 ▪ ESG Framework Example

Source: Adapted from FTSE Russell, "ESG Scores," https://www.lseg.com/en/ftse-russell/esg-scores (accessed January 30, 2025).

Earth in Balance

General Mills Prioritizes the Planet

General Mills, the manufacturer and marketer of more than 100 food brands, has long been a champion of sustainability. For more than 150 years, this Minneapolis-based food giant has been driven by its commitment to "doing good" for people and the planet. With its latest climate plans and focus on regenerative agriculture, General Mills continues to strengthen its leadership in corporate sustainability. As part of its vision to create a healthier planet, General Mills has developed a climate plan aimed at reducing greenhouse gas emissions. The company has committed to reaching net-zero carbon emissions by 2050.

Regenerative agriculture, renewable electricity adoption, and improved transportation efficiency are the foundation of this emissions goal. General Mills recognizes that almost half of the company's emissions occur upstream in the supply chain before the company's direct operations, which include everything from farming and production to the transportation of ingredients that go into General Mills's products. Because of this, the food giant is working with farmers in its supply chain to adopt practices that enrich soil health, reduce carbon emissions, and improve ecosystem resilience.

General Mills is committed to supporting sustainable farming through partnerships with key stakeholders. This includes a notable collaboration with Walmart to promote sustainable farming practices across 600,000 acres of land. Through such partnerships, the company seeks to drive systems-wide change, emphasizing the collective nature of climate action and supporting the industry as a whole. General Mills says it is committed to advancing regenerative agriculture on 1 million acres of farmland by 2030.

Food production is at the heart of General Mills's business, and the company's commitment to sustainability extends to the ingredients that fuel its products. As part of its strategy, General Mills has increased its natural and organic offerings, with one in nine products in its North American portfolio now certified organic or made with organic ingredients. The company is also meeting consumer demand for plant-based options by investing in new product innovations. Through these efforts, General Mills ensures that it is catering to an evolving consumer base while upholding its responsibility to the planet.

General Mills has already made significant progress in its sustainability journey, but the work is far from over. As the company works toward its net-zero goals, it continues to innovate and collaborate with partners across the food industry to accelerate positive change. General Mills recognizes that achieving long-term environmental sustainability requires collaboration both within the company and across the broader global supply chain. By focusing on regenerative agriculture and reducing emissions, General Mills is demonstrating its belief that environmental responsibility and good business go hand in hand.

Sources: Chris Casey, "General Mills Plans to Cut Dairy Emissions 40% by End of Decade," *Food Dive*, April 18, 2024, https://www.fooddive.com/news/general-mills-plans-to-cut-dairy-emissions-40-by-end-of-decade/713473/ (accessed January 28, 2025); Lucy Buchholz, "General Mills: Reducing GHG Emissions & Achieving Net Zero," *Sustainability Magazine*, August 22, 2023, https://sustainabilitymag.com/articles/general-mills-reducing-ghg-emissions-achieving-net-zero (accessed January 28, 2025); Mary Jane Melendez, "Mary Jane Melendez: Chief Sustainability and Global Impact Officer, General Mills," *Time*, November 12, 2024, https://time.com/7172547/mary-jane-melendez/ (accessed January 28, 2025).

Global Nature of Social Responsibility

Although many forces have shaped the debate on social responsibility, the increasing globalization of business has made it an international concern. A common theme is criticism of the increasing power and scope of business and income differences among executives and employees. Questions of corruption, environmental protection, fair wages, safe working conditions, and the income gap between rich and poor are posed. Many critics and protesters believe that global business involves the exploitation of the working poor, the destruction of the planet, and a rise in inequality.[47] The global pandemic put trust to the test. Business emerged ahead of NGOs, the government, and the media as the most trusted institution, according to the Edelman Trust Barometer.[48] In an environment where consumers distrust business, greater regulation and lower brand loyalty are the likely results. We discuss more of the relationship between social responsibility and business outcomes later in this chapter.

The globalization of business has critics who believe that the movement is detrimental because it destroys the unique cultural elements of individual countries, concentrates power within developed nations and their corporations, abuses natural resources, and takes advantage of people in developing countries. Multinational corporations are perhaps most subject to criticism because of their size and scope. Table 1.5 shows the world's largest companies, which are more powerful than many of the countries in which they do business. Because of the economic and political power that they potentially wield, the actions of large, multinational companies are under scrutiny by many stakeholders. Most allegations by antiglobalization protestors are not extreme, but the issues are still consequential. For example, the pharmaceutical industry has long been criticized for excessively high pricing, interference with clinical evaluations, some disregard for developing nations, and aggressive promotional practices. Critics have called on governments, as well as public health organizations, to influence the industry toward changing some of its practices.[49]

Advocates of the global economy counter these allegations by pointing to increases in overall economic growth, new jobs, new and more effective products, and other positive effects of global business. Although these differences of opinion provide fuel for debate and discussion, the global economy probably "holds much greater potential than its critics think, and much more disruption than its advocates admit. By definition, a global economy is as big as it can get. This means that the scale of both the opportunity and the consequences are at an apex."[50]

In responding to this powerful situation, companies around the world are increasingly implementing programs and practices that strive to achieve a balance between economic responsibilities and other social responsibilities. Nestlé, a global foods manufacturer and marketer, published the Nestlé Corporate Business Principles in 1998 and has continually revised them. These principles serve as a management tool for decision-making at Nestlé. The updated principles are consistent with the Global Compact, an accord by the United Nations that covers environmental standards, human rights, and labor conditions.[51] We explore the global context of social responsibility more fully throughout this book.

Table 1.5 ▪ World's 10 Largest Companies by Revenue

Rank	Company Name	Headquarters	Revenue ($M)
1	Walmart	United States	$680,985
2	Amazon	United States	$637,959
3	State Grid	China	$545,948
4	Saudi Aramco	Saudi Arabia	$494,890
5	Sinopec Group	China	$429,700
6	China National Petroleum	China	$421,714
7	UnitedHealth Group	United States	$400,278
8	Apple	United States	$395,760
9	CVS Health	United States	$372,809
10	Berkshire Hathaway	United States	$369,893

Source: "Global 500," *Fortune*, https://fortune.com/global500/ (accessed May 28, 2025).

In most developed countries, social responsibility involves stakeholder accountability and the financial, legal, ethical, and philanthropic dimensions discussed earlier in the chapter. However, a key question for implementing social responsibility on a global scale is: Who decides on these responsibilities? Many executives and managers face the challenge of doing business in diverse countries while attempting to maintain their employers' corporate culture and satisfy their expectations. Some companies have adopted an approach in which broad corporate standards can be adapted at a local level. For example, a corporate goal of demonstrating environmental leadership could be met in a number of different ways, depending on local conditions and needs. Sappi, a global pulp and paper company, sets the tone at the top by creating both global and regional goals that work toward the same objectives. The company releases regional sustainability reports to make data accessible and comparable.[52]

Global social responsibility also involves the collaboration of government, business, trade associations, and other groups. For example, countries that belong to the Asia-Pacific Economic Cooperation (APEC), an inter-governmental forum for 21 member countries, are responsible for half the world's annual production and trade volume. APEC works to reduce trade barriers and tariffs and has developed meaningful projects in the areas of sustainable development, clean technologies, workplace safety, and the health of the marine environment. This powerful trade group has demonstrated that financial, social, and ethical concerns can be tackled simultaneously.[53] Like APEC, other trade groups, such as the European Union (EU), are also exploring ways to enhance economic productivity while upholding strict environmental regulations and sustainability initiatives. The EU has implemented ambitious policies, such as the European Green Deal, which aims for climate neutrality by 2050 through carbon-reduction targets, renewable energy investments, and circular economy strategies.

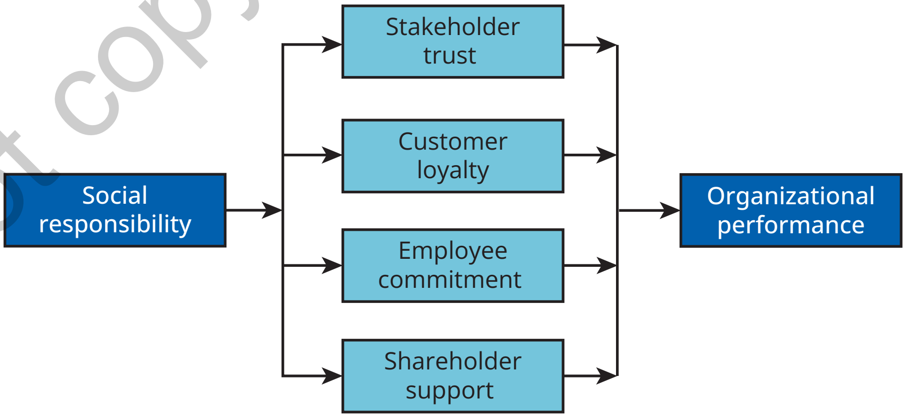
Another trend involves business leaders becoming so-called cosmopolitan citizens by simultaneously harnessing their leadership skills, worldwide business connections, access to funds, and beliefs about human and social rights. Ben Cohen and Jerry Greenfield, the duo behind Ben & Jerry's, can often be found protesting political and social issues on Capitol Hill. Dan Schulman, former CEO of PayPal, has stood up for transgender rights. Red Ventures CEO Ric Elias joined a pledge to give away the majority of his wealth to philanthropy.[54] These business leaders are acting as agents to ensure that the economic promises of globalization are met with true concern for social and environmental considerations. In many cases, such efforts supplant those historically associated with government responsibility and programs.[55]

In sum, progressive global businesses and executives recognize the shared bottom line that results from the partnership among businesses, communities, government, customers, and the natural environment. According to a PwC survey, 91 percent of business leaders agree that their company has a responsibility to act on ESG issues. Top issues include data security and privacy, climate change, and product safety.[56] Thus, our concept of social responsibility is applicable to businesses around the world, although adaptations of implementation and other details on the local level are definitely required. In companies around the world, there is also the recognition of a relationship between strategic social responsibility and benefits to society and organizational performance.

Benefits of Social Responsibility

The importance of social responsibility initiatives in enhancing stakeholder relationships, improving performance, and creating other benefits has been debated from many perspectives.[57] Many business managers view such programs as costly activities that provide rewards only to society, at the expense of their company's bottom line. Another view holds that some costs of social responsibility can be recovered through improved performance. If social responsibility is strategic and aligned with a firm's mission and values, then improved performance can be achieved. It is hard to measure the reputation of a firm, but it is important to build trust and achieve success. Moreover, ample research evidence demonstrates that companies that implement strategic social responsibility programs are more profitable.

Figure 1.4 ▪ The Role of Social Responsibility in Performance



Some of the specific benefits include increased efficiency in daily operations, greater employee commitment, higher product quality, improved decision-making, and increased customer loyalty, as well as improved financial performance. In short, companies that establish a reputation for trust, fairness, and integrity develop a valuable resource advantage that fosters success, which then translates to greater financial performance (see Figure 1.4). This section provides evidence that resources invested in social responsibility programs reap positive outcomes for both organizations and their stakeholders.

Trust

Trust is the glue that holds organizations together and allows them to focus on efficiency, productivity, and profits. According to Stephen R. Covey, author of *The 7 Habits of Highly Effective People*, "Trust lies at the very core of effective human interactions. Compelling trust is the highest form of human motivation. It brings out the very best in people, but it takes time and patience, and it doesn't preclude the necessity to train and develop people so their competency can rise to that level of trust." When trust is low, organizations decay and relationships deteriorate, resulting in infighting, playing politics within the organization, and general inefficiency. Employee commitment to the organization declines, product quality suffers, employee turnover skyrockets, and customers turn to more trustworthy competitors.[58] Any stakeholder that loses trust can create a missing link necessary for success.

In a trusting work environment, however, employees can reasonably expect to be treated with respect and consideration by both their peers and their superiors. They are also more willing to rely and act on the decisions and actions of their coworkers. Thus, trusting relationships between managers and their subordinates and among peers contribute to greater decision-making efficiency. Research by the Ethics & Compliance Initiative indicates that this trust is pivotal for supporting an ethical climate. Employees of an organization with a strong ethical culture are less likely to feel pressure to compromise ethics standards or observe misconduct in the workplace.[59] Table 1.6 shows common features of a strong ethical culture. As the table demonstrates, a key factor that inspires trust and transparency in organizations involves support and consistent communication from senior leadership and supervisors.

Table 1.6 ▪ Features of a Strong Ethical Culture

Feature	Description	Example
Modeling ethical behavior	Leaders and managers set a positive example by demonstrating ethical actions and decisions.	A senior executive refuses to engage in corrupt practices, even when there is pressure from stakeholders.
Keeping promises and commitments	Honoring commitments demonstrates integrity in both business and interpersonal relationships.	A manager fulfills a promise to meet with an employee for career development despite a busy schedule.
Supporting employees' ethical efforts	Providing resources and guidance to employees who make ethical decisions or engage in ethical behavior promotes a workplace culture focused on integrity.	A company offers ethics training and resources for employees to report misconduct.
Reinforcing ethical conduct	Positive reinforcement through rewards, acknowledgment, and praise encourages employees to continue acting ethically, ensuring ethical behavior is valued in the workplace.	A company awards a prize to employees who demonstrate strong ethical decision-making.
Applying standards consistently	Ethical standards should be applied equally to all employees, regardless of position or status, to ensure fairness and build trust in organizational processes.	A company applies the same disciplinary action for similar violations, regardless of employee rank.
Being transparent	Openness about decision-making, policies, and operations fosters a culture of honesty and accountability.	A company releases an annual sustainability report to highlight its environmental impact.
Addressing unethical behavior	Addressing unethical actions or misconduct through corrective measures and consequences demonstrates that ethical behavior is nonnegotiable.	A company promptly investigates and addresses an anonymous tip received through its whistleblower hotline.

Source: Based on Ethics & Compliance Initiative, "Global Business Ethics Survey: The State of Ethics & Compliance in the Workplace," 2024, https://www.ethics.org/wp-content/uploads/ECI-GBES-US-Trends-2024.pdf (accessed January 30, 2025).

Trust is also essential for a company to maintain positive long-term relationships with customers. Meta, Boar's Head, and Boeing are just a few examples of companies that have been involved in corporate scandals. According to *The Economist*, a company loses 30 percent of its value when it loses trust. It is possible to regain trust, but it takes commitment, time, and resources to recover.[60] Communities and regulators that lose trust in a company can damage the firm's reputation and relationships with additional stakeholders, including shareholders, investors, and others.

Customer Loyalty

The prevailing business philosophy about customer relationships is that a company should strive to market products that satisfy customers' needs through a coordinated effort that also allows the company to achieve its own objectives. It is well accepted that customer satisfaction is one of the most important factors for business success. Although companies must continue to develop and adapt products to keep pace with consumers' changing desires, it is also crucial to develop long-term relationships with customers. Relationships built on mutual respect and cooperation facilitate the repeat purchases that are essential for success. By focusing on customer satisfaction, a business can continually strengthen its customers' trust in the company, and as their confidence grows, this in turn increases the firm's understanding of their requirements.

Many consumers are willing to switch to brands associated with a good cause if price and quality are equal. Consumers take for granted that they can buy high-quality products at low prices; therefore, companies need to stand out as doing something—something that demonstrates their commitment to society.[61] According to an *Adweek* survey, more than half of consumers would boycott a brand that did not share their social beliefs.[62] Another way of looking at these results is that irresponsible behavior could trigger disloyalty and refusals to buy, whereas good social responsibility initiatives could draw customers to a company's products. For example, many firms use cause-related marketing programs to donate part of a product's sales revenue to a charity that is meaningful to the product's target market.

Employee Commitment

Employee commitment stems from employees who are empowered with training and autonomy. Adobe, an American software company, is known for its people-centric approach. The company fosters a diverse and inclusive work environment where employees feel appreciated and excited about their work. The company considers its people (human capital) to be its greatest asset.[63] Evidence suggests that corporate social responsibility initiatives are a good way to retain and attract employees.[64]

When companies fail to provide value for their employees, loyalty and commitment suffer. The COVID-19 pandemic fueled an exodus from the workforce, with millions quitting their jobs. Employee loyalty declined as workers sought flexible schedules, better benefits, and career advancement.[65] Employees spend many of their waking hours at work; thus, an organization's commitment to goodwill and respect for its employees usually results in increased employee loyalty and support of the company's objectives. Academic research on employee commitment has highlighted the importance of communicating and implementing CSR from a values perspective, not a compliance mandate. Employee commitment is also enhanced when social responsibility principles are integrated into business processes and practices and not just viewed as window dressing or a simple add-on to corporate strategy.[66]

Shareholder Support

Investors look at a corporation's bottom line for profits or the potential for increased stock prices. To be successful, relationships with stockholders and other investors must rest on dependability, trust, and commitment. But investors also look for potential cracks or flaws in a company's performance. Shareholders can even sue a company, its officers, or its directors for mismanagement, defrauding investors, or violating a fiduciary duty. A shareholder lawsuit against China-based Alibaba Group, one of the world's largest online retailers, alleged the company hurt investors by making misstatements about its antitrust and exclusivity practices. Alibaba denied the allegations but settled the lawsuit and agreed to pay $433.5 million.[67]

Many shareholders are also concerned about the reputation of the companies in which they invest. Investors have even been known to avoid buying the stock of firms they view as irresponsible. When executives behave irresponsibly, the firm pays the price. For example, after Luckin Coffee was at the center of an accounting fraud scandal, its stock plummeted and, even years later, has yet to recover to its previous peak.[68] Many socially responsible mutual funds and asset management firms are available to help concerned investors purchase stock in responsible companies. These investors recognize that corporate responsibility is the foundation for efficiency, productivity, and profits. In contrast, investors know that fines or negative publicity can decrease a company's stock price, customer loyalty, and long-term viability. Consequently, many chief executives spend a great deal of time communicating with investors about their firms' reputations and financial performance and trying to attract them to their stock.

The issue of drawing and retaining investors is critical for CEOs as the average time an investor holds shares is only 5.5 months, according to data from the New York Stock Exchange.[69] This focus on short-term gains subjects corporate managers to tremendous pressure to boost short-term earnings, often at the expense of long-term strategic plans, including those needed to fulfill strategic social responsibility goals. The resulting pressure for short-term gains deprives corporations of stable capital and forces decision-makers into a "quarterly" mentality.

Conversely, those shareholders willing to hold onto their investments for lengthy periods are more willing to sacrifice short-term gains for long-term income. Attracting these long-term investors shields companies from the volatility of the stock market and gives them flexibility and stability in long-term strategic planning. In the aftermath of the Enron scandal and other significant scandals, as listed in Table 1.7, public trust and confidence in financial audits and published financial statements were severely shaken. Gaining and retaining investors' trust and confidence are vital for sustaining a firm's financial stability, as well as the stability of entire market economies.

Table 1.7 ▪ Selection of Top Corporate Scandals

Company Name	Year	Description
Enron	2001	Fraudulent financial reporting
WorldCom	2002	Accounting scandal
Lehman Brothers	2008	Subprime mortgage crisis
BP	2010	Deepwater Horizon oil spill
Valeant Pharmaceuticals	2015	Drug price inflation
Volkswagen	2015	Emissions scandal
Wells Fargo	2016	Aggressive sales goals and account fraud
Theranos	2016	Misled investors about product capabilities
Uber	2017	Allegations of sexual harassment and unethical business practices
Equifax	2017	Security breach
Facebook (Meta)	2018	Privacy breach and dubious targeted ad campaigns
Boeing	2019	Faulty design and inadequate safety processes
Wirecard	2020	Fraudulent accounting
Luckin Coffee	2020	Fraudulent accounting
FTX	2022	Fraud and mismanagement of customer funds
Silicon Valley Bank	2023	Liquidity crisis due to poor risk management
TD Bank	2024	Failed to uphold anti-money laundering controls

The Bottom Line: Profits

Social responsibility is positively associated with return on investment, return on assets, and sales growth.[70] A company cannot be socially responsible and nurture and develop an ethical organizational culture continuously unless it has achieved financial performance in terms of profits. Businesses with greater resources—regardless of their staff size—have the ability to promote their social responsibility along with serving their customers, valuing their employees, and establishing trust with the public. More than 90 percent of the 250 largest U.S. companies publish an annual CSR report and spend billions on environmental and social causes every year. These annual reports are important internal- and external-facing documents that detail a company's social responsibility initiatives and their impact.[71] As mentioned before, the stock returns of the world's most ethical companies are often higher than that of companies listed on the S&P 500. Many studies have identified a positive relationship between social responsibility and financial performance.[72] Investors buying shares in a company can evaluate their ESG score. Research has found that a high ESG rating is positively related to profitability and valuation and negatively related to volatility. Firms with a high ESG rating are likely to outperform other firms.[73]

In summary, a company with strong efforts and results in social responsibility is generally not penalized by market forces, including the intention of consumers to purchase the firm's products. Social responsibility efforts and performance serve as a reputational lever and resource advantage that managers may use to influence and cultivate stakeholders as partners. A high-performing company may also receive endorsements from governmental officials or other influential groups, and these are more believable than company messages. A company with a strong social responsibility orientation often becomes quite proactive in managing and changing conditions that yield economic benefits, including avoiding litigation and increased regulation. Finally, corporate social performance and corporate financial performance are positively correlated. These findings subjugate the belief that social responsibility is just a "cost factor" for business and has no real benefits to the firm.[74]

National Economy

An often-asked question is whether business conduct has any bearing on a nation's overall economic performance. Many economists have wondered why some market-based economies are productive and provide a high standard of living for their citizens, whereas other market-based economies lack the kinds of social institutions that foster productivity and economic growth. Perhaps a society's economic problems can be explained by a lack of social responsibility. Trust stems from principles of morality and serves as an important "lubricant of the social system."[75] Many descriptions of market economies fail to take into account the role of such institutions as family, education, and social systems in explaining standards of living and economic success. Perhaps some countries do a better job than others of developing economically and socially because of the social structure of their economic relationships.

Social institutions refer to the systems, principles, norms, and values within a society that help establish stable patterns of human activity and relationships. These include institutions like family, health, education, the military, and the economy, which influence the way people interact, trust one another, and work together to foster economic and social development. Social institutions, particularly those that promote trust, are important for the economic well-being of a society.[76] Society has become economically successful over time "because of the underlying institutional framework persistently reinforcing incentives for organizations to engage in productive activity."[77] In some developing countries, opportunities for political and economic development have been stifled by activities that promote monopolies, graft, and corruption and by restrictions on opportunities to advance individual, as well as collective, well-being. As found in Table 1.8, L. E. Harrison offers four fundamental factors that promote economic well-being: "(1) The degree of identification with others in a society—the radius of trust, or the sense of community; (2) the rigor of the ethical system; (3) the way authority is exercised within the society; and (4) attitudes about work, innovation, saving, and profit."[78]

Countries with institutions based on strong trust foster a productivity-enhancing environment because they have ethical systems in place that reduce transaction costs and make competitive processes more efficient and effective. In market-based systems with a great degree of trust, such as

Australia, Canada, Germany, the Netherlands, and the United Kingdom, highly successful enterprises can develop through a spirit of cooperation and ease in conducting business.[79]

Superior financial performance at the firm level within a society is measured as profits, earnings per share, return on investment, and capital appreciation. Businesses must achieve a certain level of financial performance to survive and reinvest in the various institutions in society that provide support. However, at the institutional or societal level, a key factor distinguishing societies with high standards of living from those with lower standards of living is whether the institutions within the society are generally trustworthy. The challenge is to articulate the process by which institutions that support social responsibility can contribute to superior, firm-level financial performance.[80]

Table 1.8 ▪ Fundamental Factors That Promote Economic Well-Being

Factor	Description
Factor 1	The degree of identification with others in a society—the radius of trust or the sense of community
Factor 2	The rigor of the ethical system
Factor 3	The way that authority is exercised within the society
Factor 4	Attitudes about work, innovation, saving, and profit

Source: Lawrence E. Harrison, *Who Prospers? How Cultural Values Shape Economic and Political Success* (Basic Books, 1992).

Table 1.9 ▪ Perceptions of Countries as Least/Most Corrupt

Least Corrupt Countries		Most Corrupt Countries	
Rank	Country	Rank	Country
1	Denmark	180	Somalia
2	Finland	177	Venezuela
3	New Zealand	177	Syria
4	Norway	177	South Sudan
5	Singapore	176	Yemen

Source: Transparency International, *Corruption Perceptions Index*, https://www.transparency.org/en/cpi/2023 (accessed January 30, 2025).

Note: The United States, not shown, is ranked at 24.

A comparison of countries that have high levels of corruption and underdeveloped social institutions with countries that have low levels of corruption reveals differences in the economic well-being of the country's citizens. Transparency International, an organization discussed earlier, publishes an annual report on global corruption that emphasizes the effects of corruption on the business and social sectors. Table 1.9 lists the countries with the most and least corrupt public sectors, as perceived by Transparency International. As stated several times in this chapter, conducting business in an ethical and responsible manner generates trust and leads to relationships that promote higher productivity and a positive cycle of effects.[81]

Framework for Studying Social Responsibility

The framework that we have developed for this text is designed to help you understand how businesses fulfill social expectations. It begins with the social responsibility philosophy, includes the four levels of social responsibilities, involves many types of stakeholders, and ultimately results in both short- and long-term performance benefits. As discussed earlier, social responsibility must have the support of high-level management—both in words and deeds—before it can become an organizational reality. Every year the Ethisphere Institute releases its "World's Most Ethical Companies" list, recognizing businesses with an outstanding commitment to business integrity. They look at five categories to rate businesses: (1) governance, (2) third-party management, (3) ethics and compliance, (4) culture of ethics, and (5) environmental and social impact. Honorees include Aflac, Ecolab, International Paper, Kao Corporation, Milliken & Company, and PepsiCo, among others.[82]

Once the social responsibility philosophy is accepted, the four aspects of CSR are defined, implemented, and refined through programs that incorporate stakeholder input and feedback. Vizient, the largest member-owned health care company in the United States, has earned a World's Most Ethical Company designation from the Ethisphere Institute every year since its inception. Vizient analyzes internal data, employee surveys, external stakeholder interviews, and feedback from members, suppliers, industry associations, and community organizations to improve its CSR programs. The top priorities identified by its stakeholders are business model and product stewardship, human capital, leadership and governance, environment, and social capital.[83] When social responsibility programs are put into action, they have both immediate and delayed outcomes.

Figure 1.5 ▪ An Overview of This Book

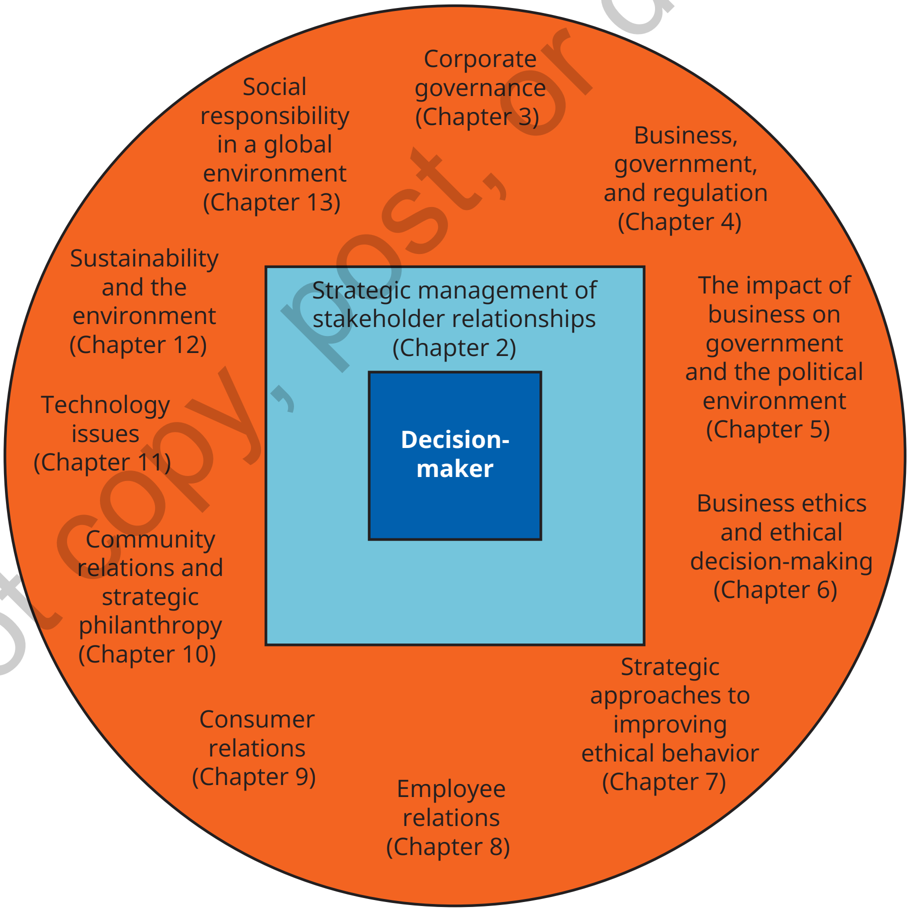


Figure 1.5 depicts how the chapters of this book fit into our framework. This framework begins with a look at the importance of working with stakeholders to achieve social responsibility objectives. It also includes an examination of the influence on business decisions and actions of the legal, regulatory, and political environment; business ethics; and corporate governance. The remaining chapters of the book explore the responsibilities associated with specific stakeholders and issues that confront business decision-makers today, including the process of implementing a social responsibility audit.

Strategic Management of Stakeholder Relationships

Social responsibility is grounded in effective and mutually beneficial relationships with customers, employees, investors, competitors, government, the community, and others who have a stake in the company. Increasingly, companies are recognizing that these constituents both affect and are affected by their actions. For this reason, many companies attempt to address the concerns of stakeholder groups, recognizing that failure to do so can have serious long-term consequences. There is a shift occurring from stockholder capitalism to stakeholder capitalism, meaning corporations are orienting themselves to better create long-term value for their stakeholders.[84] Chapter 2 examines the types of stakeholders and their attributes, how stakeholders become influential, and the processes for integrating and managing stakeholders' influence on a firm. It also examines the impact of corporate reputation and crisis situations on stakeholder relationships.

Corporate Governance

Because both daily and strategic decisions affect a variety of stakeholders, companies must maintain a governance structure to ensure proper control of their actions and assign responsibility for those actions. In Chapter 3, we define corporate governance and discuss its role in achieving strategic social responsibility. Key governance issues addressed include the rights of shareholders, the accountability of high-level management for corporate actions, executive compensation, and strategic-level processes for ensuring that financial, legal, ethical, and philanthropic responsibilities are satisfied.

Legal, Regulatory, and Political Issues

In Chapters 4 and 5, we explore the complex relationship between business and government. Every business must be aware of and abide by the laws and regulations that dictate acceptable business conduct. These chapters also examine how business can influence government by participating in the public policy process. A strategic approach for legal compliance is also provided.

Business Ethics and Strategic Approaches to Improving Ethical Behavior

Because individual values are a component of organizational conduct, these findings raise concerns about the ethics of future business leaders. Chapters 6 and 7 are devoted to exploring the role of ethics in business decision-making. These chapters explore business responsibilities that go beyond the conduct that is legally prescribed. We examine the factors that influence ethical decision-making and consider how companies can apply this understanding to increase their ethical conduct. We also examine ethical leadership and how it contributes to an ethical corporate culture.

Employee Relations

In today's business environment, most organizations want to build long-term relationships with a variety of stakeholders, particularly with employees—the focus of Chapter 8. Employees today want flexible work schedules, fair treatment, excellent compensation and benefits, and assistance in balancing work and family obligations. Privacy has also become a major concern and a top priority for workers, especially as more and more employees go remote. Employee monitoring software that tracks employee activity and performance is increasingly common, but critics question whether the use of such software contributes to an environment of trust and commitment. Research has shown that committed and satisfied employees are more productive, serve customers better, and are less likely to leave their employers. These benefits are important to successful business performance, but organizations must be proactive in their human resources programs if they are to receive them.

Consumer Relations

Chapter 9 explores companies' relationships with consumers or consumer relations. This constituency is part of a firm's primary stakeholder group, and there are a number of financial, legal, ethical, and philanthropic responsibilities that companies must address. This chapter, therefore, considers the obligations that companies have toward their customers, including health and safety issues, honesty in marketing, consumer rights, and related responsibilities.

Community and Philanthropy

Chapter 10 examines community relations and strategic philanthropy, which is the synergistic use of organizational core competencies and resources to address key stakeholders' interests and to achieve both organizational and social benefits. Whereas 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, especially the community. Strategic philanthropy involves both financial and nonfinancial contributions (employee time, goods and services, technology and equipment, and facilities) to stakeholders and reaps benefits for the community and company.

Technology Issues

In Chapter 11, we examine the issues that arise as a result of enhanced technology in the business environment, including the effects of new technology on privacy, intellectual property, and health. We also discuss the rise of artificial intelligence and its enablers, such as big data, blockchain, drones, and robotics. The strategic direction for technology depends on government, as well as on a business's ability to plan the implementation of new technology and to assess the influence of that technology on society.

Thanks to the internet and other technological advances, we can communicate faster than ever before, find information about just about anything, and live longer, healthier lives. However, not all of the changes that occur as a result of new technologies are positive. For example, many jobs have been eliminated by robots and automation, and millions of workers require reskilling and retraining. Many experts predict, however, that AI will lead to long-term job growth, creating more jobs than it eliminates.[85]

Sustainability and the Environment

In Chapter 12, we dedicate the entire content to issues of sustainability, including the interdependent nature of economic development, social development, and environmental impact. "Sustainability" has become a watchword in business and community circles, and this chapter explores the ways in which companies define and develop goals, implement programs, and contribute to sustainability concerns.

Global Social Responsibility

Finally, for many businesses to remain competitive, they must evolve continually to reach global markets and anticipate emerging world trends. Chapter 13 delves into the complex and intriguing nature of social responsibility in a global economy. Building on key concepts discussed throughout this book, we examine the forces that make overseas business plans and activities of paramount concern to host countries, local and national governments, NGOs, and other members of society. The chapter covers a wide range of challenges and opportunities, such as outsourcing, environmental protection, living wages, labor standards, and trade restrictions.

We hope that this framework provides you with a way of understanding the range of concepts, ideas, and practices that are involved in an effective social responsibility initiative. So that you can learn more about the practices of specific companies, a number of cases are provided at the end of the book. In addition, every chapter includes an opening vignette and other examples that shed more light on how social responsibility works in today's businesses. Every chapter also includes a Responsible Business Debate, an Experiential Exercise, and a scenario titled "What Would You Do?"

As you will soon see, the concept of social responsibility is both exciting and controversial; it is in a constant state of development—just like all important business concepts and practices. A recent survey of thought leaders in the area of social responsibility found that a majority believes that social responsibility has made steady progress into conventional business thinking. Much like the social responsibility continuum introduced in this chapter, the thought leaders described several stages of commitment to CSR. These stages range from shallow, where companies are concerned about responding to complaints, to deep, where companies are founded on a business model of improving social or environmental circumstances. Many companies fall somewhere in between, with a focus on complying with new standards and surviving in a climate of increasing social responsibility expectations.[86] We encourage you to draw on current news events and your own experiences to understand social responsibility and the challenges and opportunities that it poses for your career, profession, role as a consumer, and leadership approach, as well as the business world.

Summary

The term *social responsibility* came into widespread use during the last several decades, but there remains some confusion over the term's exact meaning. This text defines social responsibility as the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders.

All types of businesses can implement social responsibility initiatives to further their relationships with their customers, their employees, and the community at large. Although the efforts of large corporations usually receive the most attention, the actions of small businesses may have a greater impact on local communities.

The definition of social responsibility involves the extent to which a firm embraces the social responsibility philosophy and follows through with the implementation of initiatives. The seven main areas of social responsibility include social issues, consumer protection, sustainable business practices, corporate governance, philanthropy, legal responsibilities, and employee well-being. Social responsibility must be fully valued and championed by high-level managers and given the same planning time, priority, and management attention as is given to any other company initiative.

Many people believe that businesses should accept and abide by four types of responsibilities: financial, legal, ethical, and philanthropic. Companies have a responsibility to be financially or economically viable so that they can provide a return on investment for their owners, create jobs for the community, and contribute goods and services to the economy. They are also expected to obey laws and regulations that specify what is responsible business conduct. *Business ethics* refers to the principles and standards that guide behavior in the world of business. Philanthropic activities promote human welfare or goodwill. These responsibilities can be viewed holistically, with all four related and integrated into a comprehensive approach. Social responsibility can also be expressed as a continuum. Because customers, employees, investors and shareholders, suppliers, governments, communities, and others have a stake in or claim on some aspect of a company's products, operations, markets, industry, and outcomes, they are known as stakeholders. Adopting a stakeholder orientation is part of the social responsibility philosophy.

The influence of business has led many people to conclude that corporations should benefit their employees, their customers, their business partners, and their community as well as their shareholders. However, these responsibilities and expectations have changed over time. After World War II, many large U.S. firms dominated the global economy. Their power was largely mirrored by the autonomy of their top managers. Because of the relative lack of global competition and stockholder input during the 1950s and 1960s, there were few formal governance procedures to restrain management's actions. The stability experienced by midcentury firms dissolved in the economic turmoil of the 1970s and 1980s, leading companies to focus more on their core competencies and reduce their product diversity. The 1980s and 1990s brought a new focus on efficiency and productivity, which fostered a wave of downsizing and restructuring. Concern for corporate responsibilities was renewed in the 1990s. In the 1990s and beyond, the balance between the global market economy and an interest in social justice and cohesion best characterizes the intent and need for social responsibility. 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 Great Recession of 2008 and the collapse of many well-known institutions led to a renewed interest in business ethics and social responsibility. Later, the COVID-19 pandemic shined a light on the importance of adopting a stakeholder orientation and addressing environmental, social, and governance issues.

Today, stakeholders are increasingly demanding that firms protect the environment, contribute to social causes, and engage in conduct that is responsible and ethical. The environmental, social, and governance (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. ESG is not without its criticism, but these concepts are not going away. As consumers, investors, and regulators increasingly demand greater accountability from businesses, the focus on sustainability, social impact, and corporate governance continues to intensify.

The increasing globalization of business has made social responsibility an international concern. In most developed countries, social responsibility involves economic, legal, ethical, and philanthropic responsibilities to a variety of stakeholders. Global social responsibility also involves responsibilities to a confluence of governments, businesses, trade associations, and other groups. Progressive global businesses recognize the shared bottom line that results from the partnership among businesses, communities, governments, and other stakeholders.

The importance of social responsibility initiatives in enhancing stakeholder relationships, improving performance, and creating other benefits has been debated from many perspectives. Many business managers view such programs as costly activities that provide rewards only to society, at the expense of their bottom line. Others hold that some costs of social responsibility can be recovered through improved performance. Although it is true that some aspects of social responsibility may not accrue directly to the bottom line, we believe that organizations benefit indirectly over the long run from these activities. Moreover, ample research and anecdotal evidence demonstrate that there are many rewards for companies that implement such programs.

The process of social responsibility begins with the social responsibility philosophy, includes the four responsibilities, involves many types of stakeholders, and ultimately results in both short- and long-term performance benefits. Once the social responsibility philosophy is accepted, the four types of responsibility are defined and implemented through programs that incorporate stakeholder input and feedback.

Responsible Business Debate

ESG Investing Under Fire

Issue: *Can ESG investing truly align profits with purpose?*

The environmental, social, and governance (ESG) framework can be used to evaluate a firm's performance in these areas relative to their industry, investor priorities, competitors, and the priorities of the organization. Many companies publicly report ESG data points, which has given rise to ESG investing as more investors look for like-minded firms to support. Financial services companies have developed ESG scoring tools to help guide investors and have created ESG funds, such as bonds, mutual funds, index funds, and exchange-traded funds (ETFs), that allow investors to invest in a collection of socially responsible companies.

Environmental factors assess a company's impact on the planet, including its greenhouse gas emissions, resource consumption, and waste management. Social factors focus on issues like diversity, labor practices, and community relations. Governance examines corporate leadership, board oversight, and accountability. ESG has steadily gained popularity over the past 20 years.

ESG investing offers several potential benefits. By focusing on ESG factors, investors may reduce risk exposure to issues like climate change, labor disputes, or corporate scandals, which can negatively impact stock performance. Companies with strong ESG practices are often seen as better managed and more adaptable to regulatory changes, making them attractive to investors seeking stability. Moreover, companies that prioritize ESG factors can gain a competitive edge by building trust and loyalty, ultimately driving growth and profitability. A white paper published by the Morgan Stanley Institute for Sustainable Investing found that sustainable mutual funds often outperform traditional funds in total returns and are less risky, even during market turbulence.

For decades, companies have focused on corporate social responsibility (CSR)—business practices and policies for fulfilling economic, legal, ethical, and philanthropic responsibilities. Now, investors often rely on measurable ESG criteria to assess a firm's impact. CSR can be viewed as a strategic approach or ideal, while ESG can be viewed as the measurable outcome. Many investors and organizations advocate for ESG reporting, citing its potential to enhance transparency and create a standardized approach to corporate social responsibility. Others remain skeptical about its effectiveness and implementation.

Currently, ESG reporting lacks standardization, allowing firms to disclose various metrics that may not be easily comparable or meaningful. For example, BlackRock, a major investment management firm known for its support of sustainable investing, has criticized certain climate disclosure proposals as overly constraining. Additionally, many business leaders disagree on how to measure ESG. After Tesla, one of the world's most environmentally friendly car companies, was removed from Standard & Poor's (S&P's) ESG index, the company criticized ESG in its annual impact report, stating that it now measures investment risk rather than the positive impact on the world. From this perspective, ESG could lead to greenwashing, where companies create a misleadingly positive image of their environmental practices.

Some essential industries receive low ESG scores due to the nature of their business, despite performing well on many other metrics. Industries like oil and gas, chemicals, aviation, textiles and apparel, and firearms often face this challenge. For example, firearms, while often associated with negative consequences, are also necessary for law enforcement, hunting, and military defense. It's important to recognize that while these industries may have certain drawbacks, their essential roles should not lead to punitive measures, as their contributions to society are vital.

Lastly, some argue that companies should prioritize profits above all else. Some lawmakers and business leaders have advised against corporate involvement in social, political, and environmental issues. Critics of ESG sometimes view it as a politicization of investing.

Regardless of the ongoing debate surrounding ESG, corporate concern for sustainability, social responsibility, and corporate governance is unlikely to disappear anytime soon, though it may evolve or be rebranded in the future. The growing demand for ethical investing will likely continue to shape the market.

There Are Two Sides to Every Issue

1. ESG investing promotes long-term stability by reducing risks and supporting responsible business practices.
2. ESG investing prioritizes environmental, social, and governance goals at the expense of financial performance.

Sources: Alana Benson, "ESG Investing: A Beginner's Guide," *Nerd Wallet*, February 21, 2023, https://www.nerdwallet.com/article/investing/esg-investing (accessed January 28, 2025); Andrew Ross Sorkin, Vivian Giang, Stephen Gandel, Lauren Hirsch, Ephrat Livni, Jenny Gross, David F. Gallagher, and Anna Schaverien, "The Pushback on E.S.G. Investing," *New York Times*, May 11, 2022, https://www.nytimes.com/2022/05/11/business/dealbook/esg-investing-pushback.html (accessed January 28, 2025); Robert G. Eccles, "Moving Beyond ESG," *Harvard Business Review*, September 2024, https://hbr.org/2024/09/moving-beyond-esg (accessed January 28, 2025); Sam Metz, "EXPLAINER: ESG Investing and the Debate Surrounding It," *U.S. News*, May 19, 2022, https://www.usnews.com/news/business/articles/2022-05-19/explainer-esg-investing-and-the-debate-surrounding-it (accessed January 28, 2025).

Key Terms

business ethics
code of ethics
consumer protection laws
core competencies
corporate culture
corporate governance
employee well-being
environmental, social, and governance (ESG)
interorganizational networks
legal responsibility
license to operate
mission statement
norms
philanthropic activities
philanthropy
principles
resource-advantage theory
social institutions
social issues
social responsibility
stakeholder orientation
stakeholders
sustainable business practices
values
vision statement

Discussion Questions

1. Define social responsibility. How does this view of the role of business differ from your previous perceptions? How is it consistent with your attitudes and beliefs about business?
2. If a company is named to one of the "best in social responsibility" lists, what positive effects can it potentially reap? What are the possible costs or negative outcomes that may be associated with being named to one of these lists?
3. What historical trends have affected the social responsibilities of business? How have recent scandals affected the business climate, including any changes in responsibilities and expectations?
4. What is the environmental, social, governance (ESG) framework, and how is it used? Provide examples of each factor.
5. On the basis of the social responsibility model presented in this chapter, describe the philosophy, responsibilities, and stakeholders that make up a company's approach to social responsibility. What are the short- and long-term outcomes of this effort?
6. Consider the role that various business disciplines, including marketing, finance, accounting, and human resources, play in social responsibility. What specific views and philosophies do these disciplines bring to the implementation of social responsibility?

Experiential Exercise

Objective: This exercise will give you hands-on experience in assessing how leading companies balance financial performance with social responsibility and ethical behavior.

Assignment: Evaluate *Fortune*'s annual list of the most admired companies found on the magazine's website (fortune.com). These companies as a group have superior financial performance compared to other firms. Select three companies from the list.

Go to each of the three company's websites and assess their commitment to stakeholders (e.g., customers, employees, investors, and the community). Focus on corporate social responsibility and ESG reports, press releases, and blog posts.

Investigate whether any companies have faced legal or ethical misconduct (e.g., scandals, lawsuits, or violations) in the past. Look at credible sources or press releases. Analyze how these issues may have affected stakeholders like customers, employees, and investors. What was the company's response?

Rank the companies on the basis of the information available and your opinion on their fulfillment of social responsibility. Consider ethical leadership, commitment to sustainability, handling of past ethical or legal issues, and accountability to stakeholders.

Chapter 2

Strategic Management of Stakeholder Relationships

Klaus Vedfelt/Getty Images

Learning Objectives

2.1 Define stakeholders and their importance

2.2 Describe the role of stakeholders and how they influence organizations

2.3 Explain the impact of reputation and crises on stakeholder confidence

2.4 Examine the development of stakeholder relationships

2.5 Identify the steps involved in implementing a stakeholder perspective

2.6 Explain how stakeholder relationships are linked to social responsibility

Stakeholder Capitalism Balances Profit with Purpose

Stakeholder capitalism, a business model that prioritizes the interests of all stakeholders, including customers, employees, communities, suppliers, and shareholders, has been championed by prominent business leaders such as Klaus Schwab (World Economic Forum), Jamie Dimon

(JPMorgan Chase), and Larry Fink (BlackRock). It seeks to create long-term value for society, moving away from shareholder capitalism, the traditional focus on maximizing profits for shareholders alone.

The core idea of stakeholder capitalism is that companies benefit when they recognize the interconnectedness of all those who are affected by their operations. By meeting the needs of customers, employees, suppliers, and communities, businesses can build sustainable growth and long-term success. This model has been endorsed by many companies and chief executive officers to varying degrees. While firms such as Patagonia and Unilever have integrated stakeholder-oriented practices into their core strategies, others adopt more limited initiatives. For example, benefit corporations, which are for-profit companies legally required to consider social and environmental impact alongside financial performance, are more likely to demonstrate a stronger commitment to social good.

The Business Roundtable, a nonprofit organization made up of CEOs from major U.S. companies, emphasizes the role of businesses in fostering innovation, creating jobs, and contributing to societal well-being. Its Statement on the Purpose of a Corporation highlights the importance of treating employees with fairness and respect, supporting sustainable practices, and engaging transparently with shareholders. These principles aim to ensure that businesses not only generate profits but also contribute positively to the communities in which they operate, fostering a more inclusive and sustainable economy.

Despite widespread support for stakeholder capitalism, challenges persist. Some companies continue to prioritize profits over employee well-being, public safety, and environmental protection, while corporate programs for diversity, equity, and inclusion (DEI) and environmental, social, and governance (ESG) have encountered growing opposition. Additionally, the rising power of artificial intelligence and other technologies adds new complexities to the conversation, raising questions about societal impact and the responsibilities of businesses in addressing these issues. Despite these obstacles, many companies remain committed to stakeholder interests, though their approach to communicating these efforts may shift.

As leadership in the business world evolves, the role of stakeholder capitalism continues to be a topic of discussion. Global challenges, such as climate change and economic inequality, are prompting businesses to consider their impact on society beyond just profit generation. As companies navigate these complexities, there is an opportunity to reinforce the principles of stakeholder capitalism and support the development of the next generation of leaders who prioritize long-term value creation for all stakeholders alongside financial performance.[1]

Most organizations have a number of constituents and a web of relationships that interface with society. Stakeholders are increasingly expressing opinions and taking actions that have an effect on the industry's reputation, relationships, and products. Today, many organizations are learning to anticipate such issues and to address them in their strategies long before they become the subject of negative media stories.

In this chapter, we examine the concept of stakeholders and explore why these groups are important for today's businesses. First, we define stakeholders, examine primary and secondary stakeholders, and describe how they influence organizations. Then, we examine the concept of a stakeholder orientation. Next, we consider the impact of corporate reputation and crises on stakeholder relationships. Finally, we examine the steps involved in implementing a stakeholder perspective and the link between stakeholder relationships and social responsibility.

Stakeholders Defined

In Chapter 1, we defined **stakeholders** as those people and groups to whom an organization is responsible—including customers, shareholders, employees, suppliers, governments, communities, and many others—because they have a "stake," or claim, in some aspect of a company's products, operations, markets, industry, or outcomes. These groups are not only influenced by businesses, but they also have the ability to influence businesses in return.

Responsibility issues, conflicts, and successes revolve around stakeholder relationships. Building effective relationships is considered one of the more important areas of business today. The stakeholder framework is recognized as a management theory that attempts to balance stakeholder interests. However, managers struggle to balance stakeholder interests because limited resources cannot always be evenly distributed, and some stakeholders have more influence and importance than others, making equal consideration difficult.[2]

Stakeholder relationships are linked not only to organizational success but also to failures in ethical responsibility. A business depends on relationships between employees, customers, shareholders or investors, suppliers, and managers, all of whom help the organization develop strategies for success. Additionally, an organization often has a governing authority, typically called a board of directors, that provides oversight and direction to ensure that the organization stays focused on objectives in an ethical, legal, and socially responsible manner (corporate governance is discussed in Chapter 3). However, when misconduct is uncovered in an organization, it is often found that unethical behavior persists because individuals either passively comply with it or actively enable it.[3]

The historical assumption that the foremost objective of business is profit maximization led to the belief that business is accountable primarily to shareholders and others involved in the market and economic aspects of an organization. Because shareholders and other investors provide the financial foundation for business and expect something in return, managers and executives naturally strive to maintain positive relationships with them.[4] In the latter half of the twentieth century, however, perceptions of business accountability evolved toward an expanded model of the role and responsibilities of business in society. The expansion included questions about the normative role of business, including: "What is the appropriate role for business to play in society?" and "Should profit be the sole objective of business?"[5]

The role of social responsibility in business has been widely debated among businesspeople and scholars. While legal and economic responsibilities are generally accepted as the most important determinants of performance, some believe that fulfilling these obligations alone is sufficient for a company to contribute to society.[6] Some economists believe that if companies address economic and legal issues, they are satisfying the demands of society, and trying to anticipate and meet additional needs would be almost impossible. Economist Milton Friedman was quoted as saying that "the basic mission of business [is] thus to produce goods and services at a profit, and in doing this, business [is] making its maximum contribution to society and, in fact, being socially responsible."[7] Friedman suggested that, although individuals guilty of wrongdoing should be held accountable, the market is a better deterrent than new laws and regulations that discourage firms from wrongdoing and punish them for it.[8] Thus, he minimized the role of stakeholders, such as the government and employees, in requiring businesses to demonstrate responsible and ethical behavior.

This form of capitalism contrasts with the ideas of Adam Smith, one of the founders of capitalism, who created the concept of the invisible hand, a metaphor describing how individuals pursuing their own self-interest in a free market unintentionally benefit society. He associated this common good with psychological motives and that each individual has to produce for the common good with values such as propriety, prudence, reason, sentiment, and "promoting the happiness of mankind," which could align with stakeholder interests.[9]

A concept called **enlightened capitalism**, which places greater emphasis on stakeholder concerns, has gained traction in the twenty-first century. Rooted in Smith's original vision of capitalism, this economic system seeks to balance profitability with social responsibility by considering the well-being of all stakeholders to create sustainable long-term value. Theodore Levitt, a renowned business professor, once wrote that although profit is required for business, just as food is required for living, profit is not the purpose of business any more than food is the purpose of life.[10] Norman Bowie, a well-known philosopher, extended Levitt's sentiment by noting that focusing on profit alone can create an unfavorable paradox that causes a firm to fail to achieve its objectives. Bowie contends that when a business also cares about the well-being of its stakeholders, it earns trust and cooperation, ultimately reducing costs and increasing productivity.[11] This in turn results in the organization's increased profits and success.

While some critics maintain there is a trade-off between profits and social responsibility, there is growing evidence that social responsibility can be profitable. For example, 80 percent of adults are willing to pay more for sustainably sourced or produced products.[12] Younger generations are more likely to factor social responsibility into purchases than older generations, which indicates that social responsibility will become even more important as time goes on. There is a trade-off for the costs of social responsibility, but the benefits could attract more customers and increase customer retention. As mentioned in Chapter 1, the Ethisphere Institute has found that the world's most ethical companies consistently financially outperform a comparable index of large-cap companies. This supports the notion that ethical business practices and social responsibility can contribute to long-term financial success.

The Role of Stakeholders

Stakeholders provide resources that are more or less critical to a firm's long-term success. These resources may be both tangible and intangible. Shareholders, for example, supply capital; suppliers offer material resources or intangible knowledge; employees and managers grant expertise, leadership, and commitment; customers generate revenue and provide loyalty and positive or negative word-of-mouth promotion; local communities provide infrastructure; and the media transmits positive or negative corporate images. When individual stakeholders share similar expectations about desirable business conduct, they may choose to establish or join formal communities that are dedicated to better defining and advocating these values and expectations. Stakeholders' ability to withdraw—or threaten to withdraw—these needed resources gives them power over businesses.[13]

Reforms to improve corporate accountability and transparency suggest that stakeholders can play a major role in fostering responsible decision-making. Stakeholders apply their values and standards to many different issues, such as working conditions, consumer rights, environmental conservation, product safety, and proper information disclosure. These are issues that may or may not directly affect an individual stakeholder's own welfare. Table 2.1 provides examples of common stakeholder issues, along with indicators of businesses' impact on these issues.[14]

Table 2.1 ▪ Examples of Stakeholder Issues and Associated Measures of Corporate Impacts

Stakeholder Groups and Issues	Potential Indicators of Corporate Impact on These Issues
Employees	
Compensation and benefits	Average wage paid versus industry averages
Training and development	Changes in average training dollars spent per year per employee
Occupational health and safety	Standard injury rates and absentee rates
Flexible work arrangements	Availability of work-from-home policies
Customers	
Product safety and quality	Number of product recalls over time
Customer management	Number of customer complaints and availability of complaint procedures to address them
Accessibility	Availability and nature of measures taken to ensure services to customers with disabilities
Investors	
Transparency of shareholders	Availability of procedures to inform shareholders about corporate activities

Stakeholder Groups and Issues	Potential Indicators of Corporate Impact on These Issues
Shareholder rights	Frequency and type of litigation involving violations of shareholder rights
Suppliers	
Fair labor practices	Percentage of suppliers audited for labor conditions and compliance with fair wage standards
Supplier diversity	Percentage of minority suppliers
Community	
Public health and safety	Availability of emergency response plan protection
Conservation of energy and materials	Data on reduction of waste produced and materials comparison to industry
Donations and support of local organizations	Annual employee time spent in community service organizations
Environmental Groups	
Minimizing the use of energy	Amount of electricity purchased; percentage of "green" electricity
Minimizing emissions and waste	Type, amount, and designation of waste generated

Stakeholder engagement refers to the process of involving stakeholders who may be affected by an organization's decisions or influence the content or implementation of the organization's decisions. This engagement involves open communication, collaboration, and responsiveness to stakeholder concerns, ensuring that a wide range of perspectives are considered in business decisions. The level of an organization's social responsibility can be assessed by examining its efforts and communication on matters important to its stakeholders.

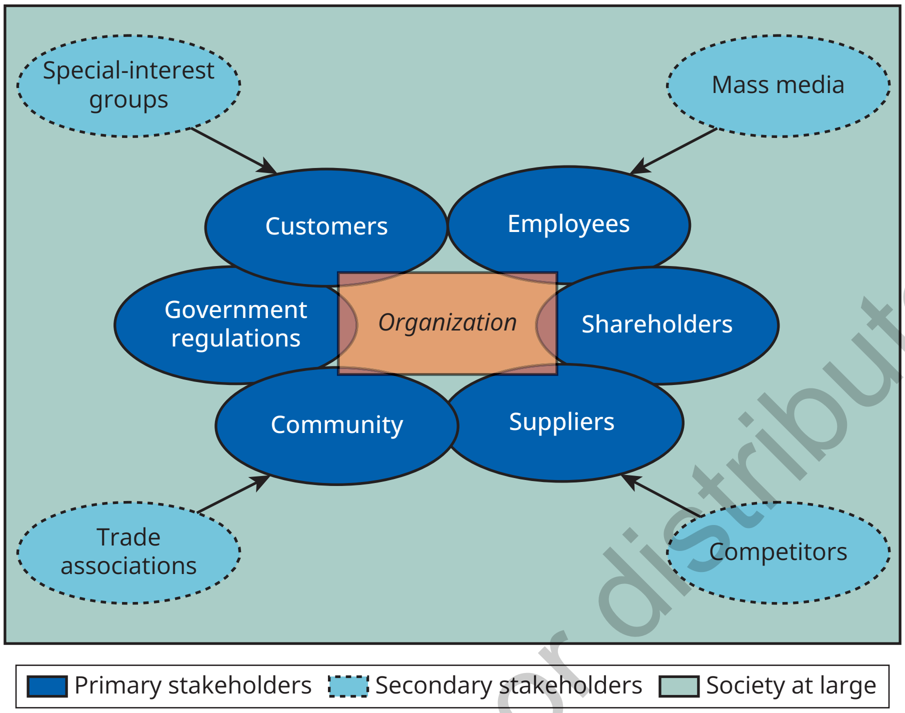
Identifying Stakeholders

We can identify two types of stakeholders: primary and secondary. **Primary stakeholders** are those whose continued association is absolutely necessary for a firm's survival; these include employees, customers, suppliers, shareholders and investors, and the governments and communities that provide necessary infrastructure. Initiatives that reward primary stakeholders can strengthen relationships. For example, establishing employee recognition programs can improve employee productivity and loyalty.[15] Other primary stakeholders, such as customers, are directly affected by the quality of products and the integrity of communication and relationships. Shareholders depend on transparency regarding financial information, as well as forward-looking statements about sales and profits.

Secondary stakeholders do not typically engage in direct transactions with a company and thus are not essential for its survival; these include the media, trade associations, and special-interest groups. Both primary and secondary stakeholders embrace specific values and standards that dictate what constitutes acceptable or unacceptable corporate behaviors. It is important for managers to recognize that primary groups may present more day-to-day concerns, but secondary groups cannot be ignored or given less consideration. Sometimes a secondary stakeholder can have more of an impact than a primary stakeholder. For instance, a government agency can influence business operations through regulation, and the media can shape public opinion, potentially affecting a company's reputation or consumer behavior. Special-interest group The American Association of Retired People (AARP), for example, has influenced businesses in the eldercare sector through lobbying, advocacy, and public campaigns that shape public policy.[16]

In the **stakeholder interaction model**, seen in Figure 2.1, there are two-way relationships between a firm and a host of stakeholders. In addition to the fundamental input of investors, employees, and suppliers, this approach recognizes other stakeholders and explicitly acknowledges the dialogue and interaction that exist between a firm's internal and external environments.

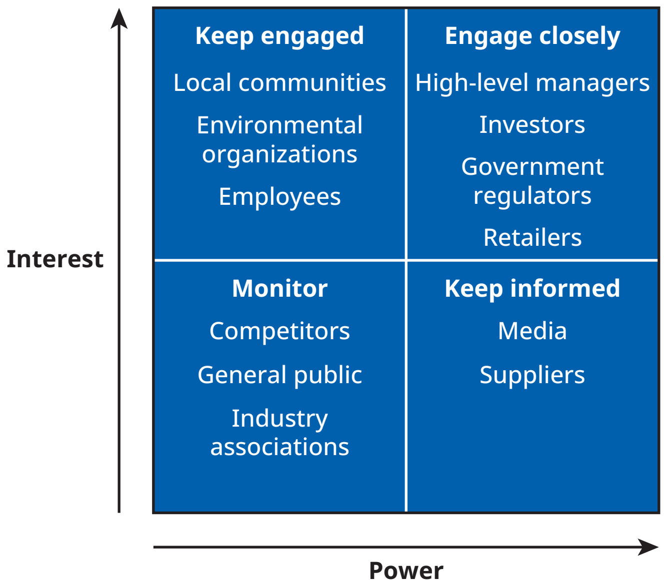
Figure 2.1 ▪ Stakeholder Model for Implementing Social Responsibilities



Source: Adapted from Isabelle Maignan, O. C. Ferrell, and Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility in Marketing," *European Journal of Marketing* 39 (September/October 2005): 956–977.

The stakeholder interaction model is a conceptual tool that a company may use to create a company-specific **stakeholder map**, a visual representation that names and categorizes primary and secondary stakeholders. Various mapping techniques exist, each offering different insights. For instance, Figure 2.2 illustrates a power-interest grid, which classifies stakeholders based on their influence (power) and concern (interest) in an organization's decisions, for a fictional electric bicycle company. The Forest Stewardship Council (FSC), an international nonprofit that promotes responsible

Figure 2.2 ▪ Example Stakeholder Map for an Electric Bicycle Company



management of the world's forests, encourages its FSC certificate holders to engage in stakeholder mapping to build mutual trust, loyalty, transparency, empowerment, and continuity. The nonprofit certifies products that come from companies that follow high environmental standards.[17]

A Stakeholder Orientation

A **stakeholder orientation** is a business approach where a company considers the interests and concerns of all parties affected by the success or failure of an organization. This orientation comprises three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.

Generating data about stakeholders begins with identifying the stakeholders that are relevant to the firm. Relevant stakeholder communities should be analyzed on the basis of the power that each enjoys, as well as by the ties among its parts. Next, the firm should characterize the concerns about the business's conduct that each relevant stakeholder group shares. This information can be derived from formal research, including surveys, focus groups, internet searches, or press reviews. For example, Ford Motor Company obtains input on social and environmental responsibility issues from company representatives, suppliers, customers, and community leaders. Employees and managers can also generate this information informally as they carry out their daily activities. For example, purchasing managers know about suppliers' demands, public relations executives about the media, legal counselors about the regulatory environment, financial executives about investors, sales representatives about customers, and human resources advisors about employees. Finally, the company should evaluate its impact on the issues that are important to the various stakeholders that it has identified.[18] To develop effective stakeholder dialogue, management needs to appreciate how others perceive the risks of a specific decision. A multistakeholder perspective must take into account communication content and transparency when communicating with specific stakeholders.[19]

Given the variety of the employees involved in the generation of information about stakeholders, it is essential that this intelligence be circulated throughout the firm. This requires that the firm facilitate the communication of information about the nature of relevant stakeholder communities, stakeholder issues, the stakeholder map, and the current impact of the firm on these issues to all members of the organization. The dissemination of stakeholder intelligence can be organized formally through activities such as newsletters, internal databases and repositories, and internal communication platforms.[20]

A stakeholder orientation is not complete unless it includes activities that actually address stakeholder issues. AT&T, for example, regularly assesses stakeholder issues and measures its progress on these issues by establishing strategic objectives and key performance indicators. The results of the company's stakeholder engagement efforts are reported to a corporate social responsibility (CSR) committee of the AT&T board of directors to guide the company's CSR strategy.[21] The responsiveness of the organization as a whole to stakeholder intelligence consists of the initiatives the firm adopts to ensure that they abide by or exceed stakeholder expectations and have a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (e.g., family-friendly work schedules) or to a particular stakeholder issue (e.g., pollution-reduction programs). These responsiveness processes typically involve the participation of the stakeholder groups in question.

Stakeholder orientation can be viewed as a continuum, in that firms are likely to adopt the concept to varying degrees. To gauge a given firm's stakeholder orientation, it is necessary to evaluate the extent to which the firm adopts behaviors that typify both the generation and dissemination of stakeholder intelligence and the responsiveness to it. A given organization may generate and disseminate more intelligence about certain stakeholder communities than about others and, as a result, may respond to that intelligence differently.[22]

Stakeholder Attributes

Understanding stakeholder attributes is crucial for companies to effectively manage relationships and respond to stakeholder concerns. These attributes—including power, legitimacy, and urgency—help determine the influence stakeholders have on a company's decisions and priorities. Table 2.2 describes these three attributes. Traditionally, companies have found it easier to identify the specific issues or concerns of stakeholders (the *what*) rather than their attributes (such as power, legitimacy, and urgency) and the tactics they use to influence organizational decision-making (the *how*).[23] Assessing power, legitimacy, and urgency provides a valuable framework to help managers uncover the motivations and needs of stakeholders and how they relate to the company and its interests.[24]

Power, legitimacy, and urgency are not constant, meaning that stakeholder attributes can change over time and context. For example, the "Buy American" sentiment in the United States was strong in the 1980s as Japanese manufacturers gained market share but declined with increased globalization as overseas manufacturing became the norm. In the late 1990s and the early 2000s, concerns over Chinese manufacturers grew, influencing consumer and retailer behavior. Nationalism in purchasing decisions resurged during the Great Recession (2008), the U.S.–China Trade War (2018), and the COVID-19 pandemic (2020). In 2025, manufacturing and buying in America saw a resurgence as tariffs drove up the cost of certain imported goods, particularly those from China and other countries with high tariffs on American products. This timeline demonstrates how power, legitimacy, and urgency can change over time.[25]

Table 2.2 ▪ Stakeholder Attributes

Attribute	Examples
Power	A well-established employee in a specialized field has power if replacing the employee would require extensive training and resources.
Legitimacy	Special-interest groups that are against genetically modified foods encourage protests after legislation favorable to biotechnology companies is passed.
Urgency	A company that has discovered a serious product defect that can cause injury must immediately implement a product recall.

Power

Power plays an important role in the dynamics between stakeholders and business. The **power** of a stakeholder is determined by the extent to which it can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to an organization.[26] Stakeholders often have varying degrees of power, and it can manifest in different forms—sometimes as the ability to influence perceptions and beliefs, other times through control over resources, or even through the threat of consequences. Symbolic, utilitarian, and coercive power are central to understanding how stakeholders assert their influence and shape organizational outcomes.

Symbolic power relies on the use of symbols, language, and social institutions that connote social acceptance, prestige, or some other attribute. Symbolism contained in letter-writing campaigns, advertising messages, and websites can be used to generate awareness and enthusiasm for more responsible business actions. In fact, the internet has conferred tremendous power on stakeholder groups. Disgruntled stakeholders, especially customers and employees, may share their concerns or dissatisfaction on social networks. But symbolic power is the least threatening of the three types.

Utilitarian power involves financial or material control based on a decision's utility or usefulness. Utilitarian measures, including boycotts and lawsuits, are also fairly prevalent, although they often come about after symbolic strategies fail to yield the desired response. For example, civil rights groups organized a boycott of Facebook in 2020, encouraging companies to stop spending advertising money on the social network. More than 1,000 advertisers exerted utilitarian power, withholding all financial resources from Facebook, while many others quietly reduced spending. The boycott hurt Facebook's bottom line and its reputation.[27]

Finally, *coercive power* involves the ability to influence the behaviors and decisions of others by imposing penalties for undesirable actions or behaviors, often through threats, force, punishment, or negative consequences. Some stakeholders use coercive power to communicate their message, especially when the issue is emotionally charged and somewhat controversial. For example, the European Union

(EU) has imposed significant financial penalties on several major technology companies, including Apple, Google, and Intel, for anticompetitive behavior. These penalties were intended to compel compliance with EU antitrust laws, demonstrating the EU's use of coercive power to enforce regulatory standards.[28] China also launched an investigation into Google, suspecting violation of antimonopoly laws.

Legitimacy

The second stakeholder attribute is **legitimacy**, which is the perception or belief that a stakeholder's actions are proper, desirable, or appropriate in a given context.[29] This definition suggests that stakeholder actions are considered legitimate when claims are judged to be reasonable by other stakeholders and by society in general. Legitimacy is gained through the stakeholder's ability and willingness to explore the issue from a variety of perspectives, and then to communicate in an effective and respectful manner on the desire for change. Legitimacy is also linked to compliance with regulations, values, and norms that support ethical conduct.

Thus, extremist views are less likely to be considered legitimate because these groups often use covert and inflammatory measures that overshadow the issues and create animosity. Over the years, extreme groups have destroyed property, threatened customers, and committed other acts of violence that ultimately discredit their legitimacy. Opponents of controversial practices such as fracking or animal testing, for example, are at risk of delegitimizing their efforts if they break the law or lead with violence. Although an issue may be legitimate, it is difficult for the claim to be evaluated independently of the way the stakeholder group communicates on it.

Urgency

Stakeholders exercise greater pressure on managers and organizations when they stress the urgency of their claims. **Urgency** is based on two characteristics: time sensitivity and the importance of the claim to the stakeholder. Time sensitivity usually heightens the stakeholder's effort and may compress an organization's ability to research and react to a claim. Labor strikes can increase the urgency of claims. While some labor strikes can last for months, essential workers (i.e., employees who perform critical tasks that are necessary for the functioning of society, particularly during emergencies or crises) may have more leverage. For example, 32,000 Kaiser Permanente health care workers were able to agree to a new contract just hours before a strike was set to start.[30]

Overall, stakeholders are considered more important to an organization when their issues are legitimate, their claims are urgent, and they can make use of their power on the organization. These attributes assist the firm and employees in determining the relative importance of specific stakeholders and making resource allocations for developing and managing the stakeholder relationship.

Building Stakeholder Confidence

Effectively managing stakeholder relationships requires careful attention to a firm's reputation and the effective handling of crisis situations. Trust and transparency build stakeholder relationships. It is crucial to continuously monitor a brand's reputation and have a crisis management plan in place before disaster strikes. Apple, Walmart, and Amazon are often found at the top of Fortune's World's Most Admired Companies list even though these companies regularly face criticism and controversy. This suggests these companies are effective at reputation and crisis management.[31]

Reputation Management

There are short- and long-term outcomes associated with positive stakeholder relationships. One of the most significant of these is a positive reputation. Because a company's reputation has the power to attract or repel stakeholders, it can be either an asset or a liability in developing and implementing strategic plans and social responsibility initiatives.[32] Reputations take a long time to build or change, and it is far more important to monitor reputation than many companies believe. Whereas a strong reputation may take years to build, it can be destroyed seemingly overnight if a company does not handle crises to the satisfaction of the various stakeholders involved.

Corporate reputation, image, and brands are more important than ever and are among the most critical aspects of sustaining relationships with constituents, including investors, customers, financial analysts, media, and government watchdogs. It takes companies decades to build a great reputation, yet just one slip can cost a company dearly. Although an organization does not control its reputation in a direct sense, its actions, choices, behaviors, and consequences influence the reputation that exists in the perceptions of stakeholders. A corporate reputation poll showed that quality is typically the biggest driver of corporate reputation, but company purpose and vision play a big role. While consumers are primarily concerned about the quality of their goods and services, consumers also want companies to maintain strong values through their vision and purpose.[33]

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. A company's reputation is affected by every contact with a stakeholder.[34] Various trends may affect how companies manage their reputations. These trends include market factors, such as increased consumer knowledge, the emergence of instantaneous communication, stakeholder activism, and community access to information, and workplace factors, including technological advances, closer vendor relationships, and more inquisitive employees. These factors make companies more cautious about their actions and words because increased scrutiny in this area requires more attention from management. A company needs to understand these factors and how to properly address them to build a strong reputation. These factors have also helped companies recognize the link between reputation and competitive advantage. If these trends are dealt with wisely and if internal and external communication strategies are used effectively, a firm can position itself positively in stakeholders' minds and thus create a competitive advantage. Intangible factors related to reputation can account for as much as 50 percent of a firm's market valuation.[35]

The importance of corporate reputation has created a need for accurate reputation measures. As indicated in Table 2.3, business publications, research firms, consultants, and public relations agencies have established a foothold in the field of reputation management through research and lists of "the most reputable" firms. However, some questions have arisen as to who can best determine corporate reputation. For example, some measures survey only chief executives, whereas others also elicit perceptions from the general public. Although executives may be biased toward a firm's financial performance, the general public may lack experience or data on which to evaluate a company's reputation. Regardless of how it is measured, reputation is the result of a process involving an organization and various constituents.[36]

Table 2.3 ▪ Reputation Measures

Reputation List	Conducted By	Methodology
100 Best Companies to Work For	*Fortune* magazine and Great Place to Work Institute	Employees from U.S. companies that employ at least 1,000 employees.
100 Best Corporate Citizens	3BL Media	Measures Russell 1,000 companies' performance and transparency on corporate citizenship and sustainability using publicly available data.
100 Most Sustainable U.S. Companies	Barron's	Scores the 1,000 largest public companies across 230 environmental, social, and governance factors.
Axios Harris Poll 100	Axios and The Harris Poll	The general public assesses companies across seven key dimensions: trust, vision, growth, products and services, culture, ethics, and citizenship.
FutureBrand Index	CoreBrand, LLC	3,000 high-level managers, including CEOs, chairs, and managers, who have knowledge of at least 7 companies in the PwC Top 100.

Reputation List	Conducted By	Methodology
Global RepTrak 100	The RepTrak Company	Data are collected from various sources, with thousands of ratings gathered from the general public through online surveys, media content, and third-party sources.
World's Most Admired Companies	*Fortune* magazine and Korn Ferry	Evaluates corporate reputations based on input from approximately 3,380 executives, directors, and analysts worldwide.
World's Most Ethical Companies	The Ethisphere Institute	Scoring based on self-reported data in five weighted categories: culture of ethics; governance; leadership, innovation, and reputation; citizenship and responsibility; and financial performance.

The process of reputation management involves four components that work together: organizational identity and culture, image, performance, and, ultimately, reputation.[37] Companies must manage *organizational identity and culture* by pinpointing the standards and responsibilities that will allow them to achieve their objectives, work with stakeholders effectively, and continuously monitor and change for effectiveness.[38] *Image* refers to how the company presents itself externally and how stakeholders perceive that presentation. This includes branding, communications, and public relations efforts, which influence how the organization is viewed in the marketplace. *Performance* involves the actual interaction between the company and its stakeholders. Finally, *reputation* is the outcome of the company's identity, culture, image, and performance. To build and manage a good reputation, these areas must be aligned. Patagonia is an example of a company that has built a strong reputation by aligning these four areas. The company's values, which inform its organizational identity, reflect a minimalist style and dedication to preserving the planet. Its image is shaped by transparent business practices and high-quality garments that are made to last. Patagonia's performance reflects its values through eco-friendly products and initiatives.[39] Table 2.4 lists the top 10 companies with the best reputations according to the Axios Harris Poll 100, which scores the reputations of the 100 most visible brands in the United States.

Table 2.4 ▪ Reputation Rankings of U.S. Companies

Best Reputation	
Rank	**Company**
1	Nvidia
2	3M
3	Fidelity Investments
4	Sony
5	Adidas
6	USAA
7	Honda Motor Company
8	Patagonia
9	Apple
10	Samsung

Source: "The 2024 Axios Harris Poll 100 Reputation Rankings," *Axios*, May 22, 2024, https://www.axios.com/2024/05/22/axios-harris-poll-company-reputation-ranking-data-source (accessed February 14, 2025).

Note: The Axios Harris Poll 100 ranks only the 100 most visible companies based on the public's top-of-mind awareness.

Many firms will, at one time or another, experience crises that threaten or harm their reputation. How a company reacts, responds, and learns from the situation is indicative of its commitment to and implementation of social responsibility. The acceptance and implementation of reputation management strategies, concurrent with the widespread use of the internet and social media, also may bring challenges to the **marketplace of ideas**. Unlike the traditional economic marketplace, where competition determines superior products and services, an ideas marketplace assumes that ideas compete against one another for truth and acceptability. Although the marketplace of ideas was initially conceptualized with respect to free speech, it also applies to the dual responsibility of executives and managers with respect to reputation management: advocating for the company while simultaneously ensuring transparency and full disclosure with stakeholders.[40]

Reputation management is a key consideration for corporations around the world. A poll by Edelman shows increasing trust in businesses for both the informed public and the general population. According to the Global RepTrak 100, the most reputable companies in the United States are Lego, Mercedes-Benz, Rolex, Sony, Canon, Bosch, Rolls-Royce, PayPal, Levi Strauss & Co., and Harley-Davidson.[41]

Crisis Management

Crisis management is the process of handling a high-impact event characterized by ambiguity and the need for swift action. Organizational crises are far-reaching events that can have dramatic effects on both the organization and its stakeholders. Corporate crises are typically caused by factors such as operational failures, ethical misconduct, financial mismanagement, legal or regulatory violations, poor communication, or external threats like natural disasters or cybersecurity attacks. Along with the industrialization of society, companies and their products have become ever more complex, and therefore more susceptible to crisis. As a result, disasters and crises are increasingly common events from which few organizations are exempt.[42] For example, AT&T faced a severe data breach that affected almost all of its 110 million customers, highlighting the critical need for effective crisis management.[43] Companies must be ready at any moment to adapt to challenges to protect their stakeholders and maintain trust.

Organizational crises are characterized by a threat to a company's high-priority goals, a surprise to its membership, and stakeholder demands for a short response time. The nature of crises requires a firm's leadership to communicate in an often stressful, emotional, uncertain, and demanding context. Crises are very difficult on a company's stakeholders as well. For this reason, the firm's stakeholders, especially its employees, shareholders, customers, government regulators, competitors, creditors, and the media, will scrutinize communication after a crisis. Hence, a crisis has widespread implications not only for the organization but also for each group affected by the crisis.

An **ethical misconduct disaster (EMD)** can be an unexpected organizational crisis that results from employee misconduct, illegal activities such as fraud, or unethical decisions that significantly disrupt operations and threaten—or are perceived to threaten—the firm's continuity of operations. An EMD can even be more devastating than natural disasters, such as a hurricane or technology disruptions.[44] Table 2.5 discusses some EMDs that happened due to lapses in leadership and the failure to manage risks properly. As organizations plan for natural disasters and insure against traditional risks, so too should they prepare for ethical crises.

An EMD can be managed by organizational initiatives to recognize, avoid, discover, address, and recover from the misconduct. The potential damage of an ethical disaster can affect both business and society. The costs of an EMD from both financial and reputation perspectives can be assessed, as well as the need for planning to avoid an EMD in the first place. The role of leadership in preventing a crisis relates to a contingency plan to develop effective crisis management programs.

The risks facing organizations today are significant, and the reputational damage caused can be far greater for companies that find themselves unprepared. The key is to recognize that the risks associated with misconduct are real and that, if insufficient controls are in place, the company can suddenly find itself the subject of an EMD.

Although it is hard to predict an ethical disaster, companies can and must prepare for one. Data protection is a major issue in the modern era, and companies now have more responsibility to protect consumer data. Ticketmaster, Audi, T-Mobile, Coinbase, Neiman Marcus, Panasonic, and Robinhood

Table 2.5 ▪ Ethical Misconduct Disasters

Company	Disaster
Bayer	Faced thousands of claims that linked Roundup weedkiller to cases of non-Hodgkin's lymphoma but continued to sell the product
Blue Cross Blue Shield	Accused of anticompetitive behavior and agreed to pay more than $2 billion to settle the antitrust lawsuit
Boeing	Paid $2.5 billion to settle criminal charges that the company conspired to defraud the Federal Aviation Administration
Johnson & Johnson, Cardinal Health, AmerisourceBergen, and McKesson	Downplayed the addictive properties of opioids, greatly contributing to the opioid crisis
Volkswagen and BMW	Accused of colluding illegally to limit the effectiveness of their emissions technology

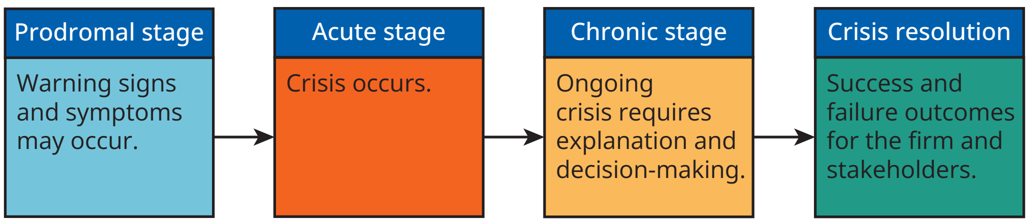
are just a few companies to face data breaches in recent years. Many companies struggle to stay ahead of cybersecurity issues, leaving their customers at risk. Microsoft has strengthened its cybersecurity efforts to avoid a major crisis. In addition to investing in data protection technology, the company has invested in the next generation of cybersecurity professionals through educational programs.[45]

To better understand how crises develop and move toward resolution, some researchers use a medical analogy. In this framework, the organization proceeds through chronological stages, similar to a person with an illness. The *prodromal stage* is a pre-crisis period, during which warning signs may exist. Next is the *acute stage*, where the actual crisis occurs. During the *chronic stage*, the business must explain its actions sufficiently to move to the final stage, *crisis resolution*. Figure 2.3 illustrates these stages. Although the stages are conceptually distinct, some crises happen so quickly and unexpectedly that the organization may move from the prodromal to the acute stage within minutes.

Typically, companies that face crises can recover by refocusing on their core competencies, but sometimes recovery is more difficult if backlash alienates large portions of a company's customer base, making it harder to regain favor.[46] A crisis usually leads to both success and failure outcomes for a business and its stakeholders, and it provides information that can be used to make improvements to future crisis management and social responsibility efforts.[47]

One of the fundamental difficulties that a company faces is how to communicate effectively with stakeholders during and after a disaster. Once a crisis strikes, the firm's stakeholders need a quick response in the midst of the duress and confusion. They need information about how the company plans to resolve the crisis, as well as what each constituent can do to mitigate its own negative effects. If a company is slow to respond, stakeholders may feel that the company does not care about their needs or is not concerned or remorseful (if the company is at fault) about the crisis. Furthermore, a delayed response may in fact increase the suffering of particular stakeholder groups. For instance, some stakeholders may take on considerable debt due to medical expenses as a result of the crisis. Therefore, a rapid response to stakeholders is central to any crisis resolution strategy so that these various groups can plan their recovery.

Figure 2.3 ▪ The Crisis Management Process



Crisis events are often so chaotic that a company's leadership may not be certain of the cause of the situation before the media and other relevant groups demand a statement. Thus, it is not surprising for organizations to begin their crisis responses with some degree of ambiguity in their statements. In fact, some crisis theorists advise companies to avoid too much detail in their initial responses due to the embarrassment that results from changing positions later in the crisis, when more information is available. Still, stakeholder groups want or, as a matter of safety in some cases, need access to whatever information the firm can share. Although tensions between the public's needs and the organization's fear of litigation can hamper the willingness to communicate, the demand for information in such situations is unyielding.

Not only should the firm's leadership make a public statement quickly, but it is also necessary for the organization to communicate about specific issues to stakeholder groups. First, leadership should express concern and/or remorse for the event. Second, the organization should delineate guidelines regarding how they intend to address the crisis so that stakeholders can be confident that the situation will not escalate or recur. Finally, the company should provide explicit criteria to stakeholders regarding how each group will be compensated for any negative effects it experiences as a result of the crisis. Many companies, however, overlook these three essential conditions of crisis management. More often, they focus on minimizing harm to the organization's image, denying responsibility for the crisis, and shifting blame away from the organization and toward other stakeholder groups. Although this may be an appropriate strategy when firms are not actually responsible, too often they choose this course of action under the stress of the crisis when they are responsible (or partially responsible) for the crisis without expressing sufficient remorse for their involvement or concern for their stakeholders.

The varying communication needs and levels of concern of stakeholders during and after a crisis often hamper effective communication. The firm's leadership should try to communicate as much accurate information to these groups as possible to minimize their uncertainty. When a firm fails to do so, its credibility, legitimacy, and reputation in the eyes of stakeholders often suffer.

Adding to the complexity of communication challenges, the needs of various stakeholder groups may conflict. For instance, the needs of customers who become ill as a result of a contaminated product and their desire to have medical bills paid may be at odds with the company's ability to bolster its stock price to satisfy shareholders. Some stakeholders will obviously have more opportunities than others to voice their concerns after a crisis. Victims and the general public rarely have an opportunity to meet with the organization's leadership after a crisis. Conversely, the organization's stockholders and employees will likely have a greater opportunity to express their views about the crisis and therefore may have their ideas accepted by management. Some researchers suggest that, due to this ability to communicate directly with leadership, internal stakeholder needs often take precedence over those of external stakeholders.

Organizations have a responsibility to manage the competing interests of stakeholders to ensure that all stakeholder groups are treated fairly in the aftermath of a crisis. Responsible companies try to balance the needs of their stakeholders rather than favoring some groups over others. Organizations that fail to accomplish effective crisis communication alienate stakeholder groups and intensify the negative media attention toward the company. For many reasons, including effective crisis management, organizations need to understand and pursue solid and mutually beneficial relationships with stakeholders.

Development of Stakeholder Relationships

Relationships of any type, whether they involve family, friends, coworkers, or companies, are founded on principles of trust, commitment, and transparent communication. They also are associated with a certain degree of time, interaction, and shared expectations. For instance, we do not normally speak of "having a relationship" with someone we have just met. We even differentiate between casual acquaintances, work colleagues, and close friends.

In business, the concept of relationships has gained much acceptance. Instead of just pursuing one-time transactions, companies are now searching for ways to develop long-term and collaborative relationships with their customers and business partners.[48] Many companies focus on relationships with suppliers, buyers, employees, and others directly involved in economic exchange.

Stakeholder relationships involve investments of several types. Some investments are tangible, such as buildings, equipment, new tools, and other elements dedicated to a particular relationship. Many companies, for example, have invested in their digital supply chains to transform the customer experience. Walmart regularly invests in new technology that allows it to quickly, efficiently, and affordably get products into the hands of its customers. Other investments are less tangible, such as the time, effort, trust, and commitment required to develop a relationship with customers. Southwest Airlines, for example, develops the intangible aspect of relationships through the level of customer service they provide, as well as the enjoyable experience they offer.[49] Whereas tangible investments are often customized for a specific business relationship, intangible efforts have a more permeable quality.

The key to good stakeholder relationships resides in trust, communication quality, and mutual respect. As a company strives to develop a dialogue and a solid relationship with one stakeholder, investments and lessons learned through the process should add value to other stakeholder relationships. For example, efforts to improve communication with customers can enhance transparency with investors, while initiatives supporting employees may also strengthen community relations. Such efforts result in **social capital**, an asset that resides in relationships and is characterized by mutual goals and trust.[50] Social capital includes the social connections that can provide economic benefits that are mutually advantageous. Social capital provides social networks that have value. Like financial and intellectual capital, social capital facilitates internal and external transactions and processes. This is especially true as more businesses become part of the sharing economy and gig economy. These business models depend upon building and reinforcing transparency and accountability among users, as well as between users and the company.[51]

Unlike financial and intellectual capital, however, social capital is not tangible or the obvious property of one organization. In this same regard, social responsibility is not compartmentalized or reserved for a few issues or stakeholders but should have the company-wide strategic focus discussed in Chapter 1.

Earth in Balance

How Unilever's Sustainable Living Plan Transformed Its Business

Acknowledging the global challenges of social inequality and climate change, Unilever's management identified an opportunity to establish purposeful, innovative goals and strategies that would positively impact both society and the environment. To that end, the British consumer-foods conglomerate launched its 10-year Sustainable Living Plan to ensure that its corporate strategies and actions would improve health and well-being, reduce environmental impact, and enhance livelihoods—all while generating profits for shareholders. Unilever set multiple ambitious goals for its activities and policies.

Although Unilever did not meet all of the plan's objectives within the timeframe, it achieved significant gains for many stakeholders. Regarding the environment, Unilever successfully eliminated waste going from factories to landfills and reduced total waste by 32 percent. It also cut greenhouse gas emissions by 50 percent and transitioned to 100 percent renewable electricity across all its facilities. For employees, the plan contributed to improvements in health and well-being, a more equitable compensation system, and progress toward ensuring all employees receive a living wage. For suppliers, Unilever worked to improve human rights across its supply chain. For customers, it enhanced the nutrition of its products, reducing the amount of sugar in beverages by 23 percent and improving the nutritional profile of its food portfolio. Additionally, Unilever's plan allowed it to reach 1.3 billion people through its health and hygiene programs. It also helped 2.34 million women gain access to programs aimed at promoting safety, developing skills, and expanding opportunities.

While Unilever's Sustainable Living Plan addressed the concerns of many stakeholders, its shareholders also benefited from the company's progress. The plan's goals and strategies improved efficiencies throughout its operations, reducing costs by more than €1 billion (about $1.1 billion). Although some might argue that such actions and goals distract from profit objectives, in Unilever's case, they helped the company deliver a total shareholder return of 290 percent over the 10-year period, well above the 165 percent average shareholder return of 18 of its peers during the same period.

As Unilever wrapped up the final year of the Sustainable Living Plan, it recognized that it could not become complacent with its success. High-level management pledged to build on the company's lessons from the Sustainable Living Plan and continue to work toward goals that had not yet been achieved. The company established a new plan, the Unilever Compass, with the help of 40,000 employees and hundreds of external stakeholders, to build on the success of the Sustainable Living Plan. The Compass includes three tenets: (1) brands with purpose grow, (2) companies with purpose last, and (3) people with purpose thrive. It outlines 15 multiyear priorities that relate to all of Unilever's businesses, each with ambitious targets and related programs.

Sources: Ayu Akmal Yusnidar Binti Mohd Jayus, "Aligning Profit with Purpose: A Case Study of Unilever's Sustainable Living Plan," LinkedIn, May 9, 2023, https://www.linkedin.com/pulse/aligning-profit-purpose-case-study-unilevers-living-plan-jayus (accessed February 8, 2025); Lynne S. Payne, "What Does 'Stakeholder Capitalism' Mean to You," *Harvard Business Review*, September–October 2023, https://hbr.org/2023/09/what-does-stakeholder-capitalism-mean-to-you (accessed February 6, 2025); "Unilever Celebrates 10 Years of the Sustainable Living Plan," Unilever, May 6, 2020, https://www.unileverusa.com/news/press-releases/2020/unilever-celebrates-10-years-of-the-sustainable-living-plan/ (accessed February 8, 2025).

Implementing a Stakeholder Perspective in Social Responsibility

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should establish clear processes for managing these important concerns. Although there are many approaches, we provide six key steps that have been found effective for implementing a stakeholder perspective while managing responsibility and business ethics, including (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to ensure feedback from relevant stakeholders is incorporated into organizational strategy and implementation.[52] Table 2.6 summarizes these six steps.

Step 1: Assessing the Corporate Culture

To enhance organizational fit, a social responsibility program must align with the corporate culture of the organization. The purpose of this first step is to identify the organizational mission, values, and norms that are likely to have implications for social responsibility. In particular, relevant existing values and norms are those that specify the stakeholder groups and stakeholder issues that are deemed most important by the organization. Very often, relevant organizational values and norms can be found in corporate documents such as mission statements, annual reports, sales brochures, or websites. For example, Dr. Bronner's, a family-owned soap company known for its commitment to social responsibility, names its key stakeholders (the company itself, its customers, its employees, its suppliers, Earth, and the community) and its guiding principles (Work Hard! Grow!; Do right by customers; Treat employees like family; Be fair to suppliers; Treat the earth like home; and Fund & fight for what's right!) on its website.[53]

Step 2: Identifying Stakeholder Groups

In managing this stage, it is important to recognize stakeholder needs, wants, and desires. There are many important issues that gain visibility because key constituencies such as consumer groups, regulators, and the media express an interest. When agreement, collaboration, or even confrontation exists around an issue, there is a need for a decision-making process. A model of collaboration to overcome the adversarial approaches to problem-solving has been suggested. Managers can identify relevant stakeholders that may be affected by or may influence the development of organizational policy, which is an important element of stakeholder engagement.

Table 2.6 ▪ Six Steps for Utilizing a Stakeholder Framework

Steps	Example
Assess the corporate culture.	Bombas, an apparel company, has had a mission to support individuals experiencing homelessness since day one.
Identify stakeholder groups.	Whole Foods recognizes the importance of working with animal activist organizations to ensure that the animals supplying its meat products are treated humanely.
Identify stakeholder issues.	Chevron identifies sustainability and the increasing concern over greenhouse gas emissions as important stakeholder considerations affecting the industry.
Assess the organization's commitment to social responsibility.	CVS determined that eliminating cigarette sales would reinforce its commitment to becoming a health services company.
Identify resources and determine urgency.	Home Depot provides emergency supplies in areas that are struck by natural disasters.
Gain stakeholder feedback.	Best Buy asked consumers for feedback and realized that the recycling of electronic waste was a major concern.

Stakeholders have some level of power over a business because they are in the position to withhold or threaten to withhold organizational resources. Stakeholders have the most power when their own survival is not really affected by the success of the organization and when they have access to vital organizational resources. For example, most consumers of chocolate do not have a specific need to buy Hershey's chocolate. Therefore, if they decide to boycott Hershey, they have to endure only minor inconvenience. Nevertheless, their loyalty to Hershey is vital to the continued success of the chocolate maker. The proper assessment of the power held by a given stakeholder community also requires an evaluation of the extent to which that community can collaborate with others to pressure the firm.

Step 3: Identifying Stakeholder Issues

Together, Steps 1 and 2 lead to the identification of the stakeholders who are both the most powerful and legitimate. The level of power and legitimacy determines the degree of urgency in addressing their needs. Step 3, then, consists of understanding the nature of the main issues of concern to these stakeholders. A stakeholder map may be especially useful at this stage.

It should be noted that expectations and priorities vary across stakeholder groups. For example, PepsiCo's key stakeholders include investors, NGOs, consumers, industry peers, customers, suppliers, and employees. Investors focus on financial performance, portfolio strategy, and governance. NGOs emphasize sustainability, human rights, and environmental impact. Consumers care about product safety, nutrition, and packaging. Industry peers collaborate on global challenges like climate change and gender equity. Customers prioritize innovation, sustainability, and regulatory compliance. Suppliers are engaged in ethical sourcing, environmental impact, and fair labor practices. Employees focus on diversity, inclusion, career growth, and workplace well-being.[54] Collaboration becomes necessary when a problem is too complex for any single group to solve alone. In such cases, multiple stakeholders—such as businesses, governments, competitors, and nonprofits—must work together to find a solution.

Step 4: Assessing the Organization's Commitment to Social Responsibility

Steps 1 through 3 consist of generating information about social responsibility among a variety of influencers in and around the organization. Step 4 brings these three first stages together to arrive at an understanding of social responsibility that specifically matches the organization of interest. This general definition will then be used to evaluate current practices and to select concrete social responsibility initiatives. Firms such as Kohler Co. have selected activities that address stakeholder concerns. Kohler, an American manufacturing company known for its plumbing products, has formalized its initiatives in official documents, such as annual social impact reports, policies, and web pages. It has invested in innovation in water efficiency, environmentally friendly product designs, corporate giving, diversity, equity and inclusion, and more.[55]

Step 5: Identifying Resources and Determining Urgency

The prioritization of stakeholders and issues, along with the assessment of past performance, provide for allocating resources. Two main criteria can be considered. First, the levels of financial and organizational investments required by various actions should be determined. A second criterion when prioritizing social responsibility challenges is urgency. When the challenge under consideration is viewed as significant, and when stakeholder pressures on the issue could be expected, then the challenge can be treated as urgent. 3M commissions an independent research consultancy to gain a deeper understanding of their stakeholders' perspectives on key issues. Based on the insights gathered, the company then identifies its priority topics, considering both the impact of these issues on 3M's financial performance and value, as well as how the company's activities affect its stakeholders. The company's priorities are continuously reassessed to ensure alignment with its corporate vision and ongoing strategies.[56]

Step 6: Gaining Stakeholder Feedback

Stakeholder feedback can be generated through a variety of means. First, their general assessment of the firm and its practices can be obtained through satisfaction or reputation surveys. Second, to gauge stakeholders' perceptions of the firm's contributions to specific issues, stakeholder-generated media such as blogs, websites, podcasts, and newsletters can be assessed. Additionally, public sentiment toward a firm can be evaluated through social media posts and public reviews. Third, more formal research may be conducted using focus groups and observation.

There is no "one size fits all" approach to building and sustaining trusting relationships with stakeholders. As discussed earlier in the chapter, not all stakeholders engage with a company with the same level of intensity or locus of control, whether internal or external. For example, employees are highly engaged internal stakeholders, while suppliers may be considered low-intensity external stakeholders. Relationship intensity, however, is not static. For example, during product shortages, suppliers can become high-intensity stakeholders. Depending on the specific issues at hand, historical interactions, relationship intensity, and other factors, managers must understand the relative importance of transparency, competence, benevolence, integrity, values, and other factors.[57]

Link Between Stakeholder Relationships and Social Responsibility

Without a solid understanding of stakeholders and their interests, a firm may miss important trends and changes in its environment and not achieve strategic social responsibility. For example, Toyota, one of the world's top-selling automakers, fell behind in the electric vehicle (EV) race because it took a conservative approach to electrification, citing concerns that consumers weren't ready to adopt EVs. Toyota was wrong. As stakeholder pressure from governments, consumers, and environmental groups increased, Toyota faced the challenge of adapting its strategy.[58] This situation underscores the importance of understanding stakeholder expectations.

Rather than holding all companies to one standard, our approach to evaluating performance and effectiveness resides in the specific expectations and actual results that develop between each organization and its stakeholders. Max Clarkson, an influential contributor to our understanding of stakeholders, sums up this view:

> *Performance is what counts. Performance can be measured and evaluated. Whether a corporation and its management are motivated by enlightened self-interest, common sense or high standards of ethical behavior cannot be determined by empirical methodologies available today. These are not questions that can be answered by economists, sociologists, psychologists, or any other kind of social scientist. They are interesting questions, but they are not relevant when it comes to evaluating a company's performance in managing its relationships with its stakeholder groups.*[59]

Although critics and some researchers may seek answers and evidence as to the motivations of business for social responsibility, we are interested in what companies are actually doing that is positive, negative, or neutral for their stakeholders and their stakeholders' interests. The Reactive–Defensive–Accommodative–Proactive Scale provides a method for assessing a company's strategy and performance for each stakeholder. This scale is based on a continuum of strategy options and performance outcomes with respect to stakeholders.[60]

The Reactive–Defensive–Accommodative–Proactive Scale is useful because it evaluates real-life practices and allows an organization to see its strengths and weaknesses within each stakeholder relationship. This evaluation can take place as stakeholder issues arise or are identified. As a result, it is possible for one company to be rated at several different levels because of varying performance and transitions over time. For example, a poorly handled crisis may provide feedback for continuous improvement that creates more satisfactory performance in the future. Or a company may demonstrate a proactive stance toward employees yet be defensive with consumer activists.

The *reactive* approach involves denying responsibility and doing less than is required. A firm that fails to invest in safety and health measures for employees is denying its responsibilities. Volkswagen took a reactive approach when it was caught in the diesel emissions scandal, first denying wrongdoing before eventually taking corrective action. An organization with a *defensive* strategy acknowledges reluctantly and partially the responsibility issues that may be raised by its stakeholders. After a fatal crash involving the 737 MAX aircraft, Boeing initially took a defensive strategy, defending the safety of its planes and resisting calls for changes. A firm in this category fulfills basic legal obligations and demonstrates the minimal responsibility discussed in Chapter 1. With an *accommodative* strategy, a company accepts responsibility for social issues and attempts to satisfy stakeholder demands by doing all that is required. For instance, Yoo-hoo reformulated its strawberry drink to be made without artificial food dye Red 3 following a Food and Drug Administration ban. Finally, the *proactive* approach not only accepts but also anticipates stakeholder interests. In this case, a company sincerely aligns legitimate stakeholder views with its responsibilities and will do more than is required to meet them. Outdoor company Patagonia has long been proactive in environmental sustainability, using recycled materials in its products, pledging to donate a portion of profits to environmental causes, and pushing for climate action.[61]

Results from this stakeholder assessment should be included in the **social audit**, the process of assessing and reporting a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders. Many companies publish annual corporate social responsibility reports, internal- and external-facing documents that outline stakeholder issues and progress made on social responsibility initiatives. Thorough reports will openly share both strengths and weaknesses. Best Buy, for example, publishes an annual environmental, social, and governance (ESG) report that covers issues such as employee benefits, conflict minerals, corporate governance, and sustainable operations. The document acknowledges the company's shortcomings alongside its strengths and achievements while outlining goals and strategies for the future. This is an example of a proactive strategy.[62]

Because stakeholders are so important to the concept of social responsibility, as well as to business success, Chapters 3–13 are devoted to exploring significant stakeholder relationships and issues.

Summary

Stakeholders refer to those people and groups who have a stake in some aspect of a company's products, operations, markets, industry, or outcomes. The relationship between organizations and their stakeholders is a two-way street.

The historical assumption that the foremost objective of business is profit maximization led to the belief that business is accountable primarily to investors and others involved in the market and economic aspects of the organization. In the latter half of the twentieth century, perceptions of business accountability evolved toward an expanded model of the role and responsibilities of business in society.

Stakeholders provide resources that are more or less critical to a firm's long-term success. *Stakeholder engagement* refers to the process of involving stakeholders who may be affected by an organization's decisions or influence the content or implementation of the organization's decisions. Primary stakeholders are fundamental to a company's operations and survival and include shareholders and investors, employees, customers, suppliers, and public stakeholders, such as governments and communities. Secondary stakeholders influence and/or are affected by a company but are neither engaged in transactions with the firm nor essential for their survival. In the stakeholder interaction model, there are two-way relationships between a firm and a host of stakeholders.

A stakeholder orientation is a business approach where a company considers the interests and concerns of all parties affected by the success or failure of an organization. Stakeholder orientation can be viewed as a continuum, in that firms are likely to adopt the concept to varying degrees. Understanding stakeholder attributes is crucial for companies to effectively manage relationships and respond to stakeholder concerns. These attributes—including power, legitimacy, and urgency—help determine the influence stakeholders have on a company's decisions and priorities.

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. The process of reputation management involves four components that work together: organizational identity and culture, image, performance, and, ultimately, reputation. The acceptance and implementation of reputation management strategies, concurrent with the widespread use of the internet and social media, also may bring challenges to the marketplace of ideas.

Crisis management is the process of handling a high-impact event characterized by ambiguity and the need for swift action. An ethical misconduct disaster (EMD) can be an unexpected organizational crisis that results from employee misconduct, illegal activities such as fraud, or unethical decisions and that significantly disrupts operations and threatens or is perceived to threaten the firm's continuity of operations. Organizations have a responsibility to manage the competing interests of stakeholders to ensure that all stakeholder groups are treated fairly in the aftermath of a crisis.

Companies are searching for ways to develop long-term, collaborative relationships with their stakeholders. These relationships involve both tangible and intangible investments. Investments and lessons learned through the process of developing a dialogue and relationship with one stakeholder should add value to other stakeholder relationships. These efforts result in social capital—an asset that resides in relationships and is characterized by mutual goals and trust.

The first step in developing stakeholder relationships is to acknowledge and actively monitor the concerns of all legitimate stakeholders. A firm should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder. Information should be communicated consistently across all stakeholders. A firm should be willing to acknowledge and openly address potential conflicts. Investments in education, training, and information will improve employees' understanding of and relationships with stakeholders. Relationships with stakeholders need to be periodically assessed through both formal and informal means. Sharing feedback with stakeholders helps establish the two-way dialogue that characterizes the stakeholder model.

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should establish clear processes for managing these important concerns. Although there are many approaches, we provide six key steps that have been found effective for implementing a stakeholder perspective while managing responsibility and business ethics: (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to include feedback from relevant stakeholders in formulating organizational strategy and implementation.

Without a solid understanding of stakeholders and their interests, a firm may miss important trends and changes in its environment and not achieve strategic social responsibility. The Reactive–Defensive–Accommodative–Proactive Scale provides a method for assessing a company's strategy and performance with one stakeholder. The *reactive* approach involves denying responsibility and doing less than is required. The *defensive* approach acknowledges only reluctantly and partially the responsibility issues that may be raised by the firm's stakeholders. The *accommodative* strategy attempts to satisfy stakeholder demands. The *proactive* approach accepts and anticipates stakeholder interests. Results from this stakeholder assessment should be included in the social audit, which assesses and reports a firm's performance in fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by the stakeholders.

Responsible Business Debate

Fashion Brand Weaves Social Impact into Its Fabric

Issue: *Can fashion ever be sustainable?*

Another Tomorrow, a B Corporation-certified luxury clothing brand, has three core pillars it considers when doing business: environmental, animal, and human welfare. What sets the company apart from other environmentally friendly fashion brands is its commitment not only to sustainable and ethical sourcing and manufacturing but also to the fair treatment of its workers. Some argue, however, that the fashion industry is inherently unsustainable despite efforts to minimize its impact. Another Tomorrow hopes to prove critics wrong.

Responsible sourcing narrows the selection of raw materials, so there are fewer options from which to choose. Companies must consider resource efficiency, supply chain transparency, the sustainability of materials, traceability, ecological footprint, and more. Another Tomorrow uses ethical wool, organic cotton, organic linen, Tencel, recycled cashmere, and buttons made from corozo nuts. Its high-end fabrics are woven and dyed according to responsible chemical standards. Another Tomorrow prioritizes both sustainability and desirability, focusing on product integrity and understanding customer needs.

Leather, wool, fur, animal skin, down, and silk are examples of materials that come at a cost. Another Tomorrow sources its wool from two ethical sheep farms in Tasmania, Australia. One of them is run by Nan Bray, a former climate scientist. Another Tomorrow steers clear of silk, which results in killing silkworms in its production, and down from ducks or geese as many of these animals are killed in production. Customers can scan a QR code on any garment to see details of the item's supply chain journey.

Human impact is just as important to Another Tomorrow as its other two pillars. The company pays living wages for all its garment workers, following local standards. Extreme weather patterns caused by climate change threatened the company's wool supply and its ability to verify the working conditions of its suppliers, causing it to diversify and expand its pool of suppliers while focusing on traceability and transparency to support good working conditions.

Another Tomorrow attempts to soften its impact by operating on a platform for a technology-based circular economy, a framework that involves reducing waste and pollution, recycling materials, and keeping products in use for as long as possible. It sells high-quality investment pieces that are designed to stand the test of time. The company also offers its customers the option to resell their clothes on the company's website.

Reducing waste, however, is an uphill battle as 85 percent of textiles are sent to landfills each year. Critics of the fashion industry suggest it is not possible for clothing companies to be sustainable because of the nature of the business. Clothing production has doubled over the last 20 years as consumption patterns have changed to favor fast fashion. Moreover, the fashion industry's reliance on resource-intensive production processes further contributes to its unsustainability. Textile manufacturing requires vast amounts of water, energy, and chemicals, with industries like cotton farming and synthetic fiber production causing significant environmental harm. The dyeing and finishing processes often release toxic pollutants into waterways, while the rise of synthetic fabrics has led to increased microplastic pollution. Additionally, the industry's dependence on global supply chains results in high carbon emissions from transportation. Even brands that prioritize sustainability face challenges in fully eliminating these impacts, as the demand for new styles and seasonal collections encourages continuous production and consumption.

As a Certified B Corp, Another Tomorrow is a leader in sustainability and meets high standards of performance, accountability, and transparency. This voluntary certification is challenging to achieve and demonstrates a commitment to bettering society. Another Tomorrow hopes to use fashion as a form of activism and set a new standard of what's possible in the industry. Even so, the debate continues over whether true sustainability in fashion is achievable.

There Are Two Sides to Every Issue

1. Fashion can be sustainable with the right approach.
2. Fashion is inherently unsustainable despite efforts to minimize its impact.

Sources: Another Tomorrow, "Who We Are," https://anothertomorrow.co/pages/who-we-are (accessed February 11, 2025); Emily Farra, "Another Tomorrow's New Space on Bleecker Is About Substance, Not Stuff," *Vogue*, July 20, 2021, https://www.vogue.com/article/another-tomorrow-sustainable-brand-new-store (accessed February 11, 2025); Bella Webb, "How Another Tomorrow Built and Scaled a Sustainable Fashion Brand," *Vogue Business*, December 9, 2024, https://www.voguebusiness.com/story/sustainability/how-another-tomorrow-built-and-scaled-a-sustainable-fashion-brand (accessed February 11, 2025); Melissa Godin, "The Climate Threats Facing Fashion's Favourite Natural Fibres," *Vogue Business*, December 2, 2021, https://www.voguebusiness.com/sustainability/the-climate-threats-facing-fashions-favourite-natural-fibres (accessed February 11, 2025); Morgan McFall-Johnsen, "These Facts Show How Unsustainable the Fashion Industry Is," *World Economic Forum*, January 31, 2020, https://www.weforum.org/agenda/2020/01/fashion-industry-carbon-unsustainable-environment-pollution/ (accessed February 11, 2025); Talib Visram, "How to Build a Fashion Brand That Considers Both Its Workers and the Planet," *Fast Company*, November 19, 2021, https://www.fastcompany.com/90699185/how-to-build-a-fashion-brand-that-considers-both-its-workers-and-the-planet (accessed February 11, 2025).

Key Terms

crisis management
enlightened capitalism
ethical misconduct disaster (EMD)
legitimacy
marketplace of ideas
power
primary stakeholders
reputation management
secondary stakeholders
social audit
social capital
stakeholder engagement
stakeholder interaction model
stakeholder map
stakeholder orientation
stakeholders
urgency

Discussion Questions

1. Define "stakeholder" in your own terms. Compare your definition with the definition used in this chapter.
2. What is the difference between primary and secondary stakeholders? Why is it important for companies to make this distinction?
3. How do legitimacy, urgency, and power attributes positively and negatively affect a stakeholder's ability to develop relationships with organizations?
4. What is reputation management? Explain why companies are concerned about their reputation and its effects on stakeholders. What are the four elements of reputation management? How has the marketplace of ideas affected reputation management strategies in companies?
5. Define "crisis management." What should a company facing a crisis do to satisfy its stakeholders and protect its reputation?
6. Describe the process of developing stakeholder relationships. What parts of the process seem most important? What parts seem most difficult?
7. How can a stakeholder orientation and stakeholder map be implemented to improve social responsibility?
8. What are the differences between the reactive, defensive, accommodative, and proactive approaches to stakeholder relationships?

Experiential Exercise

Objective: In this exercise, you will analyze how companies communicate with different stakeholders, including employees, customers, and the general public. By doing this, you'll gain insight into how companies manage their online presence for different audiences.

Assignment: Choose two companies in different industries and visit their respective websites. Peruse these sites for information that is directed at three company stakeholders: employees, customers, and the general public. For example, a company that places its annual reports online may be appealing primarily to the interests of investors.

Identify and list the types of information found on each website for these groups.

Explain how each type of information might be used and perceived by employees, customers, and the general public.

Compare and contrast the two companies, highlighting any differences and similarities in how they engage with these stakeholder groups.