

The Entrepreneurial Mind

Lecture 7: Social and Ethical Responsibilities

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Appreciate the value of social and ethical responsibility in the conduct of business
2. Understand his responsibility to society
3. Apply social and ethical practices
4. Appreciate the advocacies on social and ethical responsibilities of persons and companies.

Business Ethics

Ethics is a set of moral principles or values. Ethics may be general or professional. **General ethics** guides the individual on proper personal conduct; proper personal conduct that is imposed by society and moral duties. **Professional ethics** is one self-imposed by professionals even above the requirements of the law.

Corporate Social Responsibilities

Corporate social responsibilities have become buzzwords in our Philippine setting. The same is true with corporate citizenship. **Corporate social responsibility (CSR) or corporate citizenship** is a business principle stating that the long-term interests of business are best served when its profitability and growth are accomplished alongside the development of communities, the protection and sustainability of the environment, and the improvement of people's quality of life. **Social responsibilities** are ethical obligations to customers, employees and the public.

CSR is manifested by:

1. a working environment characterized by programs on health and safety, family welfare, equal opportunity, rewards and legal reasonable working hours.
2. harmonious relationship between the business and the community
3. business concern for sustainable environment
4. contributions to programs that address social needs beyond the immediate community. The business becomes a good citizen, not only of the community where it is located, but also of the country and of the world

The practice of corporate social responsibility provides the following benefits:

1. promotes goodwill and enhances the business reputation
2. enhances customer loyalty
3. improves employee commitment and productivity
4. provides tax benefits
5. provides continuing harmonious relationship with community officials and leaders

6. promotes corporate name awareness
7. promotes product recognition

Socially desirable and ethical practices that may not entail additional cost or money include:

1. honesty in advertising or truth in advertising
2. production and distribution of organically grown fruits and vegetables and other food products
3. volunteering in the promotion of waste management like recycling and preservation of the environment
4. boycotting business products, TV stations and other media that promote advertisements that promote sex and objectionable shows
5. rendering an honest day's work among the employees
6. formulation of and compliance with the business code of ethics.

An **organization's code** of ethics is a formal document that states an organization's primary values and the ethical rules it expects employees to follow.

Corporate social responsibility (CSR) is an expression used to describe company's obligation to be sensitive to the needs of all the stakeholders in business operations. Stakeholders include:

1. employees
2. customers
3. suppliers
4. investors
5. owners
6. community

Corporate Social Responsibility

Corporate social responsibility (CSR) has gained currency. Companies are adopting 'ethical policies' or 'codes of conduct' stating how they intend to "behave". More companies are signing up to such initiatives as the United Nations Global Compact or the Fair Labor Association. They are joining bodies such as World Business Council for Sustainable Development and CSR Europe. On both sides of the Atlantic, there are myriads of conferences and initiatives, where corporate CSR Executives, some even from companies with a long anti-union record, meet up with campaigns, NGOs and indeed trade unions.

In the 1990s, McDonald's, the hamburger corporation, took two campaigners through a long and exhausting libel court case in London after they criticized its corporate practices. Then, there was the 2004 film 'Super-Size Me'. Its public image thoroughly dented, today McDonald's leaflets in the UK show happy local farmers producing organic crops for healthy meals. Or, the oil company Unocal, which was severely criticized for

knowingly using forced labor to construct a pipeline in Burma, a country run by a vicious regime and subject to an international boycott. US labor rights' groups took Unocal through the courts. Unocal now has a huge area on its website devoted to CSR.

In fact, CSR means different things to different people. However, certain ideas are becoming commonly accepted. One is that CSR is not about philanthropy or charitable work. It refers to something much more fundamental. It is about how companies take responsibility for their actions in the world at large. Conventional CSR watchdogs include labor unions, consumer groups, environmentalists, NGOs and all 'stakeholders' watching over their interest as opposed to 'stockholders' only.

The role of business worldwide and specifically in the developed economies has evolved over the last few decades from classical profit maximizing approach to a social responsibility approach, where businesses are not only responsible to its stockholders but also to all of its stakeholders in a broader inclusive sense. One can identify so many reasons for shifting the role of business from classical concept to a responsible business concept, but negative impression of the stakeholders on the enterprise would get a higher priority among others. In one hand, enterprises create wealth and job opportunities for the society and on the other, they pollute and destroy environment and ecology with devastation impact on human health and bio-diversity worldwide. To address the social problems or the problems of the stakeholders, the business community evolved a new approach in their business strategies named CSR. Through CSR, enterprises are intent to strike a balance between economic and social goals, where resources are used in a rational manner and social needs are be addressed responsibly.

CSR can be viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains and decision-making processes throughout the company and include responsibilities for current and past actions as well as adequate attention to future impacts. CSR focuses vary by business, by size, by sector and even by geographic region. The umbrella of CSR is quite big and it includes all the good practices that increase the business profitability and can preserve interest of all stakeholders. To cite, Lotus Holdings defines CSR as "The integration of the interests of the stakeholders-all those affected by a company's conduct into the company's business policies and actions, with a focus on the social environmental, and financial success of a company, the so-called triple bottom-line with the goal being to positively impact society while achieving business success." Thus, the whole range of stakeholders is considered as integral parts of CSR.

One important aspect of CSR is that it is not a legal obligation but rather a voluntary social and environmental positive initiative to establish an image of environmentally and Socially Responsible Business (SRB) that also encompasses MSMEs as well as giant corporations. The motivation and drive to pursue is chiefly a result of pressure from well-organized consumer rights movement, specifically in developed world that acts as a watchdog and hardly hesitates to impose consumer boycott against a company that violated established CSR practices. An example is the consumer boycott imposed on purchasing Bangladesh ready-made garments on the ground that these are produced by

under-aged child labor. Despite the fact that in the not so distant past, CSR was more of a charity by affluent or socially responsible business organizations without expecting any financial return, today, it very much a planned investment in creating positive image to enhance profitability. Under the CSR concept, companies decide voluntarily to contribute to a better society and a more sustainable environment. As evolved primarily in the western world, most of the rising companies their practice CSR to enhance the image and acceptability in the community (Green Paper, 2001). There are driving forces behind CSR that include new concerns and expectations from citizens, consumers, public authorities and investors in the context of globalization. Social criteria are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors. Increased concern about the damages caused to the environment by economic activities; transparency of business activities brought about by the media and modern information and communication technologies are all contributing to the changing scenario regarding CSR. According to Green Paper (2001), "Few trends I could so thoroughly undermine the very foundations of our free society than the acceptance by corporate officials of a social responsibility other than to make as much money for the stockholders as possible." (Friedman, 1962).

CORPORATE SOCIAL RESPONSIBILITY IN A GLOBAL CONTEXT

CSR AND DEVELOPING COUNTRIES

The concept of corporate social responsibility (CSR) aims to examine the role of business in society and to maximize the positive societal outcomes of business activity.

In practice, much of the business activity that has so far been labeled CSR has been driven by the concerns of investors, companies, campaign groups and consumers based in the world's richest countries. National CSR agendas in middle and low-income countries have been less visible internationally, and have often not been labeled CSR. The result has been CSR practices that are largely framed in rich countries, then internationalized and transferred to other businesses and social settings through international trade, investment and development assistance. The strategic challenge for governments at national and local levels is how best to shape an agenda that has been largely market-driven and responsive to concerns of rich country stakeholders.

Over the past years, governments, companies and NGOs in many middle-and-low-income countries have accelerated the process of adaptation of the developed-country-driven CSR agenda through greater direct engagement. CSR movements and initiatives have emerged in countries such as China, India, South Africa, Philippines and Brazil among others. Governments of some middle-income countries facing major social challenges have explicitly sought to engage business in meeting those challenges, as with Black Economic Empowerment in South Africa or presidential encouragement of business efforts to tackle poverty in the Philippines.

In developed countries too, there is increasing recognition among companies that a 'one-size fits all' approach to CSR in operations around the world is ineffective in responding to the business drivers of socially responsible behavior. The result has been reinvigorated focus on themes of greater importance in middle and low-income countries including the value of sustainable local enterprise and the role of business in poverty reduction.

Stakeholders of a Corporation

Employees

- These are the people who contribute their skills, abilities & ingenuity to the corporation.
- They are the ones who invested their future in the company with full trust & confidence that the entity would make them secure.
- Running the corporation with high emphasis on employees is popular in the corporate world nowadays that when business owners decide to expand or diversify, they always cite the number of jobs being created. And, when these businessmen are confronted with business challenges, they always pose this question, “what will happen to the employees?”
- Employees and corporations have symbiotic relationships. In an ideal scenario, employees do what is best for the corporation so that the corporation can provide them with gainful and satisfying work.
- Good employees who can contribute would lead to profit; profit could mean additional benefits to workers.
- **Employees** have a preference to work for companies with whom they share similar mission and values, and where they can make a contribution to society.

Customers/Clients

- The party is considered to be the very reason for the existence of the corporation.
- They are the buyers of the corporation’s product or services for final consumption, enjoyment or maybe for the use in the production/creation of another goals.
- **Clients or customers** should be one of the paramount considerations in the operation of a corporation.
- It is important to note in this context that big businesses are directly or indirectly touching so many people’s lives. Some of these consumers are so dependent on what these big corporations are producing, leaving them vulnerable to commercial exploitation. To balance best the interest of the customer, first there has to be unilateral and voluntary act of compassion by these businesses to consumers. The predatory instinct of corporations must be reduced if not eradicated by having a sincere and visible operating philosophy which always places clients on the equation not just plain and simple profit driven motives.
- **Consumers** search for products and services of companies they believe are “doing the right thing” in terms of consumer protection, human rights and the environment.

Suppliers

- A person, company, or organization that provides goods or services to another entity, often a distributor or retailer.
- They are crucial for the supply chain, ensuring businesses have the necessary materials, components, or finished products to operate.
- A supplier is usually known as either the manufacturer who manufactures the product itself or a distributor who purchases the goods from manufacturers. 'Let's understand the concept through a simple example. ' A bangle manufacturer buys different components of bangles from different groups of suppliers.
- A supplier in business can be described as a person or an entity that supplies goods and services.

Investors

- Look for companies that recognize and manage their risks and are entrepreneurial in terms of attitude in identifying emerging and promising business opportunities.
- An individual that puts money into an entity such as a business for a financial return.
- The main goal of any investor is to minimize risk and maximize return. It is in contrast with a speculator who is willing to invest in a risky asset with the hopes of getting a higher profit.
- An investor is a person or organization that provides capital with the expectation of earning a return on their investment.
- Investors assume the risk that a venture or company may fail and are compensated in the form of a positive return if they are successful.

Creditors

- This refers to the party who lends to the corporation goods, services, or money. Creditors may gain from corporation by way of interest for money loaned or profit for goods sold or services rendered thus it is important that in running the corporate affairs the concerns of the creditors should be taken into consideration.
- It is comforting to note that in the Philippine setting our laws are protective of creditors. This is evident in the fact that whenever there is a liquidation the priority of payment belongs to the outside creditors.

Owners/Shareholders/Stockholders

- This refers to people who invest their capital in the corporation.

- The people who in some cases are considered as the first believer of what the entity can do.
- These are the people who bet their money & assume the high risk of having their money going down the drain.
- Unlike creditors, shareholders being a part-owner of the entity who cannot demand payment from the corporation.
- Creditors on the other hand, can demand payment from the principal & the interest can go to court in case the borrowing corporation cannot pay its obligation.

Management

- This refers to the party given the authority to implement the policies as determined by the board in directing the course/business activities of the corporation (Securities and Exchange Commission (SEC), Code of Corporate Governance).
- This is the group of people running the day-to-day activities of the corporation.
- This team is composed of decision makers from the top to the bottom of the corporate hierarchy.
- They are the ones entrusted by the stockholders to do some maneuvering for the corporation to reach its destination.
- They are the decision makers who will shape the future of the organization.
- The decisions that will be made by these people may spell out failure or success of the corporation.
- Examples of people who belong to this party are the board of directors, officers and other managers that in one way or another influence on the way the corporation is being run.

Business Leaders understand that long-term company value is based on the capability of the enterprise to respond to society's changing needs.

Government

- Has several interests in private corporations, the most apparent of which are the taxes that the corporations are paying.
- **Taxes** make government stay afloat & survive as highlighted in the lifeblood theory of taxation. Apart from taxes, corporate activities help the economy, in general, and the individuals, in particular. The existence of businesses means jobs.
- **Jobs** provide income to individuals in the form of salaries.

- **Salaries** translate to purchasing power.
- It is worth emphasizing that it is the duty & responsibility of the govt. to provide the people with the basic ways & means to survive & the govt. gets the biggest help from the corporations.

Aside from those mentioned, there are services offered by private corporations that somehow lessens the burden of the government, for example: health services, education, vital industries like power, water, and transportation. In developing countries like the Philippines, it can be expected that the government cannot provide these services to level of competence to the greater majority. Private corporations fill the gaps in helping the government in the delivery of these basic services to the people. The government is also a buyer of products of some corporations. Government also set standards and regulate important aspects of corporate activities. All these things make the government an important stakeholder of corporations.

Regulators

- Want to make certain that business activities not only generate business opportunities, jobs and economic growth but also help solve serious problems such as climate change and the environment.

Public

- Has a stake in corporations considering that the latter provides the citizens with the essentials such as goods, services, employment & tax money for public programs. The result of responsible or irresponsible conduct of these corporations can also affect the public in so many ways. For example,
- If a corporation is environmentally inconsiderate by giving too much emphasis to their profit objectives, it is the public that would bear the brunt of the consequences like pollution, calamities, diseases, and many other undesirable consequences.
- Another aspect being considered is the concerns of natural resources. There is great public interest in businesses that belong to the extractive industries like mining, logging, and petroleum exploration and extraction of exhaustible natural resources. There is nothing wrong with all these activities so long as what is due to the general public should be considered. In some cases, however, there is a problem of access to vital information and given that the locations of the operations of these businesses are in far flung areas then the issue of access is aggravated. That is why it can be said that sometimes there exists a “bureau-industrial conspiracy” which means that there is a connivance between the persons who decide on the part of the government and the representatives of the big businesses seeking government approval. This scenario leaves the people helpless in asserting their rights as stakeholders. These natural resources that they are trying to exhaust for profit belong to the people and it is but normal and fitting that whatever they do the interest of the public should be considered.

Local Community

- Wants to know that businesses are being good citizens.

Media

- Expose some examples of best or worst practices to spotlight, in this way companies with good practices are given incentive in the form of free mileage, companies performing worst practices are given disincentive through exposure.

NGOs

Expose these examples of irresponsible corporate conduct and campaign for greater corporate accountability and transparency

However, we associate and recognize CSR in the activities of many businesses as they reach out to the community as in the case of:

1. SM Foundation donating books
2. Ayala Foundation supporting center of excellence in education
3. Jollibee collecting and distributing toys
4. Chevron (Caltex) monitoring children in Pandacan
5. Aboitiz Group of Companies putting up school buildings
6. Nestle's waste management
7. CDO-Foodsphere Inc., United Laboratories and Odyssey Foundation Inc.'s supplemental feeding program
8. Henry Babiera, a former seaman, with his concept of "business with conscience at the carry all tiangge at the Greenhills Shopping Mall
9. Coca-Cola's red school houses
10. Tetra Philippines' recycling projects with partner schools

We can go on and on with the list. To this list may be added the foregone Christmas and Anniversary parties in favor of outreach to the orphanages and street children.

Going back to the list of stakeholders, let it not be forgotten that the business also has its responsibility to its:

1. employees for decent wages
2. customers for safe products
3. suppliers for fair deals
4. investors and owners for fair returns on their investments

Religion of the Businessman

The following is a result of a conference of church leaders and businessmen.

The "religion of the businessman" could be stated simply: it is through the pursuit of business activity that the businessman best fulfills his social responsibility. By running a firm efficiently, he creates employment, provides products for the market place and

generates a fair return on investment for stockholders. It is through the sum total of all business activity that human needs are met and the environment uplifted. Should any marginal social problems arise, these are the responsibility of government. It is government's further responsibility to provide a legal and tax environment that leaves business free to pursue its proper goals.

Josephson Institute for the Advancement of Ethics

Josephson Institute is a nonprofit foundation established to encourage ethical conduct of professionals in the field of government law, medicine, business accounting and journalism. The set of principles prescribed by the foundation are:

1. **Honesty.** Be truthful, sincere, forthright, straight forward, frank, candid.
2. **Integrity.** Be principled, honorable: upright, courageous and act on convictions.
3. **Promise Keeping.** Be worthy of trust, keep promises, fulfill commitments, abide by the spirit as well as the letter of an agreement.
4. **Loyalty.** Be faithful and loyal to family, friends, employers, clients, and country. Safeguard the ability to make independent professional judgment by scrupulously avoiding undue influences and conflicts of interest.
5. **Fairness.** Be fair and open minded, be willing to admit error and, where appropriate, change positions and beliefs, demonstrate a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity.
6. **Caring for Others.** Be caring, kind and compassionate, share, by giving, be of service to others; help those in need and avoid harming others.
7. **Respect for Others.** Demonstrate respect for human dignity, privacy, and the right to self-determination of all people, be courteous, prompt, and decent provide others with the information they need to make informed decisions about their own lives.
8. **Responsible Citizenship.** Obey just laws; if a law is unjust, openly protest it; exercise all democratic rights and privileges responsibly by participation, social consciousness and public service, when in a position of leadership or authority, openly respect and honor democratic processes of decision making, avoid unnecessary secrecy or concealment of information, and assure that others have all the information they need to make intelligent choices and exercise their rights.
9. **Pursuit of Excellence.** Pursue excellence in all matters; in meeting your personal and professional responsibilities, be diligent, reliable, industrious, and committed; perform all tasks to the best of your ability, develop and maintain a high degree of competence, be well informed and well prepared.

10. **Accountability.** Be accountable; accept responsibility for decisions, for the foreseeable consequences of actions and inactions, and for setting an example for others. Parents, employers, teachers, many professionals and public officials have a special obligation to lead, by example, to safeguard and advance the integrity and reputation of their families, companies, professions and the government itself; an ethically sensitive individual avoids even the appearance of impropriety and takes whatever actions are necessary to correct or prevent inappropriate conduct of others.

We need ethics to live in an orderly manner. Because of the importance of ethics in our day-to-day living, some are put into law. However, it may be difficult for some to be legislated. Certain individuals act unethically because their ethical standards differ from society or because they choose to be selfish. Professionals, especially those dealing with businesses and businessmen often face the difficult task of pursuing ethical practices.

There is Hope

Authors Carmelita Miranda-Gow and Gregorio S. Miranda said it well in the preface of their book *Business Ethics*, third edition, published by National Bookstore:

Both past and present conditions show that many businessmen in their frantic desire to mass fortunes, even ill-gotten wealth, have allowed themselves to become practitioners of corrupt practices and unethical methods leaving the mass of helpless consumers gasping for breath.

It is regrettable to note that hardly a day passes without some form of deception and fraud being committed by merchants against housewives. such as selling goods short in quality, short in weight, inferior in quality, mislabeled and the like. To these merchants, "the ends justify the means that is, anything that will increase their profits. They, as a group, typify "the merchant of Venice."

However, not everything appears red in the business ledger. For one thing, we are happy to note that there are classes of business which are initiated and carried on with the highest regard for the public. While their number is small, nevertheless, their existence is a great force for good, and hopefully, they will eventually lead the way to businessmen who are deeply engrossed in activities for their own personal satisfaction unmindful of their stake and responsibility in the society of which they are a part.

Reference:

**Entrepreneurship, Cristina B. Banastao and Solita A. Frias, Unlimited Books
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