Chapter I
What Is Social Responsibility?

A. Two Opposing Views of Social Responsibility

One of the most controversial issues that has been widely debated over the last two decades is the corporate social responsibility of organizations.

Opinions about business's social responsibilities lie mainly between two extremes - classical and socioeconomic views of social responsibility.

According to the traditional concept of business, a firm exists to produce quality goods and services, earn a reasonable profit and provide jobs. In line with this concept, the economic model of social responsibility holds that society will benefit more when business is left alone to produce and market profitable products that society needs. To the manager who adopts this traditional attitude, social responsibility is someone else's job. After all, stockholders invest in a corporation to earn a return on their investment, not because the firm is socially responsible and the firm is legally obligated to act in the economic interest of its shareholders. Thus, the classical view states that business is an economic institution directed towards profit whose only responsibility to society is to provide goods and services and to return maximum benefits to shareholders. The Nobel Prize winning economist Milton Friedman endorsed this classical view. Friedman said the primary responsibility of manager is to operate the business to satisfy the interest of shareholders, and this interest of course is profit maximization.

Opposing to such view is the socioeconomic view of social responsibility. Theorists such as R. Edward Freeman (1984) supporting such view believe that business owes something back to the society that supports it, and that this debt is greater than the debt of the individual members of society. The proponents of this view believe the businesses have the responsibility not only to stockholders, but also to customers, employees, suppliers, and the general public. This broader view places emphasis not only on profits but also on the impact of business decisions on society. Recently, increasing numbers of managers and firms have adopted the socioeconomic model and they have done so for at least three reasons. First, a business is dominated by the corporate form of ownership and the corporation is a creation of society. Second, many firms are beginning to take pride in their social responsibility records. Third, many business people believe it is in their best interest to take the initiative in this area, prior to their competitors. According to them, in the long run, the socio-economic view might be the best approach for the company to adopt in running the business.

The merits of the economic and the socioeconomic models have been debated for years by business owners, managers, customers, and government officials. Each side seems to have four major arguments to reinforce its viewpoint. Proponents of the socioeconomic model maintain that a business must be more than simply seek profits to support their position and they offer that businesses cannot ignore social issues because a business is a part of our society. Moreover, a business has the technical, financial, and managerial resources that are needed to tackle today's complex social issues. Additionally, by helping resolve social issues, business can create a more stable environment for long-term profitability. Finally, proponents of socially responsible decision making practices argue that these types of tactics can prevent increased government intervention, which would force businesses to do what they fail to do voluntarily. All these arguments are based on the assumption that a business has a responsibility not only to stockholders but also to customers, employees, suppliers and the general public.

Opponents of the socioeconomic model argue that a business should do what it does best; earn a profit by manufacturing and marketing products that people want. Those who support their position argue that business managers are primarily responsible to stockholders, so management must be concerned with providing a return on owners' investment. Furthermore, corporate time, money and talent should be used to maximize profits, not to solve society's problems. Also, social problems affect society in general, so individual businesses should not be expected to solve these problems. In addition, social issues are the responsibility of government officials who are elected for that purpose and who are accountable to the voters for their decision. These arguments are obviously based on the assumption that the primary objective of business is to earn profits, whereas government and social institutions should deal with social problems.

Even if the assumption of proponents of economic concept of business that government and social institutions should deal with social problems is accepted, the government and the social institutions must act as watchdogs over the businesses to ensure that they do not add to the woes of the society. This indirectly forces the social responsibility on businesses.

A model of corporate social responsibility developed by Keith Davis (1975) provides five propositions that describe why and how businesses should adhere to the obligation to take action that protects and improves the welfare of society and the organization:

Proposition 1

Social responsibility arises from social power.

Proposition 2

Business shall operate as an open system, with open receipt of inputs from society and open disclosure of its operation to the public.

Proposition 3

The social costs and benefits of an activity, product, or service shall be thoroughly calculated and considered in deciding whether to proceed with it.

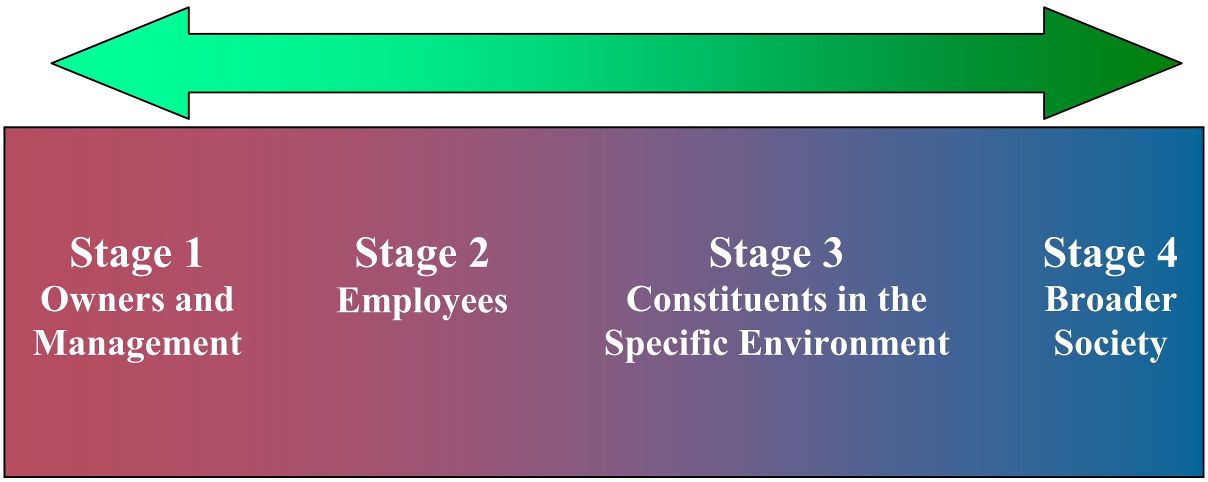
Proposition 4

Social costs related to each activity, product, or service shall be passed on to the consumer.

Proposition 5

Business institutions, as citizens, have the responsibility to become involved in certain social problems that are outside their normal areas of operation.

B. To Whom Is Management Responsible?



C. Perspectives on Corporate Social Responsibility

In the age of globalisation, corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state as one of the key characteristics of globalisation is the spread of the market and the change in the mode of production - from centralised mode of production to a highly decentralised mode of production spread across the world.

On the one hand globalisation and liberalisation have provided a great opportunity for corporations to be globally competitive by expanding their production-base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega-businesses, particularly in the context of the emerging discontent against multinational corporations in different parts of the world. Labourers, marginalized consumers, environmental activists and social activists have protested against the unprecedented predominance of multinational corporations.

A growing awareness about the need for ecological sustainability and the New Economy framework, with an unprecedented stress on communication and image merchandising, have paved the way for a new generation of business leaders concerned about the responses of the community and the sustainability of the environment or the corporate social responsibility.

There are three emerging perspectives about corporate social responsibility:

Business perspective

The business perspective recognizes the importance of **'reputation capital'** for capturing and sustaining markets. According to this perspective, corporate social responsibility is basically a new business strategy to reduce investment risks and maximize profits by taking all the key stake-holders into confidence. The proponents of this perspective often include corporate social responsibility in their advertising and social marketing initiatives.

Eco-social perspective

The proponents of this perspective are the new generation of corporations and the new-economy entrepreneurs who created a tremendous amount of wealth in a relatively short span of time. They recognize the fact that social and environmental stability and sustainability are two important prerequisites for the sustainability of the market in the long run. They also recognize the fact that increasing poverty can lead to social and political instability which can, in turn, be detrimental to business, which operates from a variety of socio-political and cultural backgrounds.

Seen from the eco-social perspective, corporate social responsibility is both a value and a strategy to ensuring the sustainability of business. It is a value because it stresses the fact that business and markets are essentially aimed at the well-being of society. It is a strategy because it helps to reduce social tensions and facilitate markets.

For the new generation of corporate leaders, **optimization of profits** is the key, rather than the **maximisation of profit**. Hence there is a shift from accountability to shareholders to accountability to stakeholders (including employees, consumers and affected communities).

Rights-based perspective

This is a growing perspective that shapes the new principles and practice of corporate social responsibility. This perspective stresses that consumers, employees, affected communities and shareholders have a right to know about corporations and their business. Corporations are private initiatives, true, but increasingly they are becoming public institutions whose survival depends on the consumers who buy their products and shareholders who invest in their stocks. This perspective stresses **accountability, transparency and social and environmental investment** as the key aspects of corporate social responsibility.

D. Types of Corporate Social Responsibility

There are three broad areas in which business companies can, and should, discharge their social responsibility. These three areas are:

(i) Traditional corporate philanthropy

(ii) Corporate social responsibility, with a focus on sustainable development and attending to stakeholder priorities

(iii) Ethical business

Traditional corporate philanthropy

Traditional corporate philanthropy dates back to the 19th century and emerged out of a variety of factors, such as:

(i) Concern for the welfare of the immediate members of the corporate body: the staff and employees, and their families.

(ii) Innovative contributions by visionary business leaders in quest of personal satisfaction, who built up philanthropic institutions out of their individual shares,

(iii) The desire to establish a strategic relationship with the State or society led some corporate bodies to invest in the establishment of institutions that fulfill the specific requirements of the community,

(iv) The establishment of trusts and foundations for tax benefits, which also support socially beneficial activities.

Corporate social responsibility

Corporate social responsibility is qualitatively different from the traditional concept of corporate philanthropy. It acknowledges the debt that the corporation owes to the community within which it operates, as a stakeholder in corporate activity. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, specially among disadvantaged communities.

The emerging perspective on corporate social responsibility focuses on responsibility towards stakeholders (shareholders, employees, management, consumers and community) rather than on maximisation of profit for shareholders. There is also more stress on long-term sustainability of business and environment and the distribution of well-being.

There is an increasing recognition of the triple-bottom-line: **People, Planet and Profit**. The triple-bottom-line stresses the following:

(i) The stakeholders in a business are not just the company's shareholders

(ii) Sustainable development and economic sustainability

(iii) Corporate profits to be analyzed in conjunction with social prosperity.

Ethical business

Ethical business is the more fundamental, emerging trend on the international scene. It focuses on specifics:

- how a business is conceptualized,
- how a business is operated,
- the notion of fair profit.

In an ethical business the essential thrust is on social values, and business is conducted in consonance with broader social values and the stakeholders' long-term interests.

E. Social Responsiveness

Social responsiveness is the degree of effectiveness and efficiency an organization displays in pursuing its social responsibilities. The greater the degree of effectiveness and efficiency, the more socially responsive the organization is said to be. The socially responsive organization that is both effective and efficient meets its social responsibilities without wasting organizational resources in the process. Determining exactly which social responsibilities an organization should pursue and then deciding how to pursue them are perhaps the two most critical decision-making aspects of maintaining a high level of social responsiveness within an organization. That is, managers must decide whether their organization should undertake the activities on its own or acquire the help of outsiders with more expertise in the area.

In addition to decision making, various approaches to meeting social obligations are another determinant of an organization's level of social responsiveness. A desirable and socially responsive approach to meeting social obligations involves the following:

- Incorporating social goals into the annual planning process
- Seeking comparative industry norms for social programs
- Presenting reports to organization members, the board of directors, and stockholders on progress in social responsibility
- Experimenting with different approaches for measuring social performance
- Attempting to measure the cost of social programs as well as the return on social program investments

There are three management approaches to meeting social obligations: (1) the social obligation approach, (2) the social responsibility approach, and (3) the social responsiveness approach. Each of the three approaches contains behavior that reflects a somewhat different attitude with regard to businesses performing social responsible activities. The social obligation approach, for example, considers business as having primarily economic purposes and confines socially responsible activity mainly to conformance to existing laws The social responsibility approach sees business as having both economic and societal goals. The social responsiveness approach considers business as having both societal and economic goals as well as the obligation to anticipate upcoming social problems and to work actively to prevent their appearance.

Organizations characterized by attitudes and behaviors consistent with the social responsiveness approach generally are more socially responsive than organizations characterized by attitudes and behaviors consistent with either the social responsibility approach or the social obligation approach. Also, organizations characterized by the social responsibility approach generally achieve higher levels of social responsiveness than organizations characterized by the social obligation approach. As one moves from the social obligation approach to the social responsiveness approach, management becomes more proactive. Proactive managers will do what is prudent from a business viewpoint to reduce liabilities whether an action is required by law or not.

F. Link between corporate social Responsibility and financial performance

Evidence of a link between corporate social and financial performance is decidedly mixed. While some studies find that investments by firms in social responsibility translate into quantifiable financial benefits, other studies do not. Such conflicting results have not given values-centered executives the evidence they need to convince skeptical peers, boards, and investors that doing good may contribute to a firm's doing well.

There are many reasons for the inconsistent evidence of social responsibility/financial performance link. Perhaps most importantly (and as any manager with responsibility for profits and losses knows), it is extremely difficult to isolate the effects of investments in corporate social responsibility on a company’s bottom line, especially since so many variables simultaneously influence financial performance.

Additionally, most empirical studies have examined the financial *upside* of social responsibility, or whether a good reputation for social responsibility leads to *increases* in financial performance.

What about the proverbial flip side of the social responsibility coin? Specifically, is there a “crisis” value to a firm’s reputation for social responsibility, in which the benefit of social responsibility comes not from increases in financial performance, but rather from insulation from *negative* financial performance? Some research suggests that firms having reputations for social responsibility may better withstand crises and experience fewer economic losses than will firms lacking such good reputations.

Those who are skeptical to CSR anticipate that, such initiative may incur additional costs and hence would jeopardize overall performance and sustainability of an organization. On the other hand, those who advocate the adoption of CSR policies strongly feel that such practices may instead, enhance reputation and subsequently enable companies to reap long-term strategic benefits of maintaining its legitimacy, competitiveness and sustainability in the market.

G. The Way Forward

There is a need to develop a more coherent and ethically-driven discourse on corporate social responsibility. CSR is still sometimes seen as "green wash" to clean the sins of pollution, or "white wash" to provide a facelift to the company's public image. It is often seen as old wine in a new bottle -- just another trendy name for good old philanthropic initiatives by companies. There is need to move beyond such transitory illusions about corporate social responsibility.

Corporate social responsibility offers a two-way street to companies, on the one hand stimulating innovative business and technological initiatives which would open up new avenues for company operations and focus on the prospect of touching new market zones.

On the other hand, it would give a cleaner societal reputation and socially responsible identity to companies, involving the companies and their employees in the long-term process of positive social transition.

H. Arguments for and against social responsibility

For	**Against**
•Public expectations •Long-run profits •Ethical obligation •Public image •Better environment •Discouragement of further governmental regulation •Balance of responsibility and power •Stockholder interests •Possession of resources •Superiority of prevention over cure	•Violation of profit maximisation •Dilution of purpose •Costs •Too much power •Lack of skills •Lack of accountability

Chapter II
Managerial Ethics And Social Responsibility

A. Introduction to Managerial Ethics

Managers in today's business world increasingly need to be concerned with two separate but inter-related concerns—business ethics and social responsibility.

Perhaps the most practical approach to view ethics is as a catalyst that causes managers to take socially responsible actions. Ethics can be defined as our concern for good behavior. We feel an obligation to consider not only our own personal well-being but also that of other human beings. This is similar to the precept of the Golden Rule: *Do unto others as you would have them do unto you*. In business, ethics can be defined as the ability and willingness to reflect on values in the course of the organization's decision-making process, to determine how values and decisions affect the various stakeholder groups, and to establish how managers can use these precepts in day-to-day company operations. Ethical business leaders strive for fairness and justice within the confines of sound management practices.

Business ethics can be examined from various perspectives, including the perspective of the employee, the commercial enterprise, and society as a whole. Very often, situations arise in which there is conflict between one and more of the parties, such that serving the interest of one party is a detriment to the other(s). For example, a particular outcome might be good for the employee, whereas, it would be bad for the company, society, or vice versa. Some ethicists see the principal role of ethics as the harmonization and reconciliation of conflicting interests.

Ethical issues can arise when companies must comply with multiple and sometimes conflicting legal or cultural standards, as in the case of multinational companies that operate in countries with varying practices. The question arises, for example, should a company obey the laws of its home country, or should it follow the less stringent laws of the developing country in which it does business?

To illustrate, law of some countries forbids companies from paying bribes either domestically or overseas; however, in other parts of the world, bribery is a customary, “accepted” way of doing business. Similar problems can occur with regard to child labor, employee safety, work hours, wages, discrimination, and environmental protection laws.

Setting the ethical standards for the way of doing business in corporation is primarily task of management. Corporations have to maintain the same standards as an individual person and, in addition, corporations, as organizational units, have their own social responsibilities toward customers, employees and society.

B. Why are Ethics vital?

Many people ask why ethics is such a vital component of management practice. The employment of ethical business practices can enhance overall corporate health in three important areas.

The first area is *productivity*. The employees of a corporation are stakeholders who are affected by management practices. When management considers ethics in its actions toward stakeholders, employees can be positively affected. For example, a corporation may decide that business ethics requires a special effort to ensure the health and welfare of employees. Many corporations have established employee advisory programs (EAPs) to help employees with family, work, financial, or legal problems, or with mental illness or chemical dependency. These programs can be a source of enhanced productivity for a corporation.

A second area in which ethical management practices can enhance corporate health is by positively *affecting "outside" shareholders*, such as suppliers and customers. A positive public image can attract customers. For example, a manufacturer of baby products carefully guards its public image as a company that puts customer health and well-being ahead of corporate profits, as exemplified in its code of ethics.

The third area in which ethical management practices can enhance corporate health is in minimizing regulation from government agencies. Where companies are believed to be acting unethically, the public is more likely to put pressure on legislators and other government officials to regulate those businesses or to enforce existing regulations.

Failure in business ethics is a real threat to the future of every corporation. Business ethics as an issue is a hundred times more powerful than the internet or globalisation and can destroy your business in a week. To make matters worse, standards of business ethics are changing rapidly in response to random events which capture public imagination. In business ethics, what was good is becoming bad and what was considered bad is now good. The manager of a company has to be able to make an ethical decision in order to be socially responsible.

C. Creating an Ethical Workplace

Business managers in most organizations commonly strive to encourage ethical practices not only to ensure moral conduct but also to gain whatever business advantage there may be in having potential consumers and employees regard the company as ethical. Creating, distributing, and continually improving a company's code of ethics is one usual step managers can take to establish an ethical workplace.

Another step managers can take is to create a special office or department with the responsibility of ensuring ethical practices within the organization.

Another way to promote ethics in the workplace is to provide the work force with appropriate training. Several companies conduct training programs aimed at encouraging ethical practices within their organizations. Such programs do not attempt to teach what is moral or ethical but, rather, to give business managers criteria they can use to help determine how ethical a certain action might be. Managers then can feel confident that a potential action will be considered ethical by the general public if it is consistent with one or more of the following standards:

1. *The Golden Rule*: Act in a way you would want others to act toward you.
2. *The utilitarian principle*: Act in a way that results in the greatest good for the greatest number.
3. *Kant's categorical imperative*: Act in such a way that the action taken under the circumstances could be a universal law, or rule, of behavior.
4. *The professional ethic*: Take actions that would be viewed as proper by a disinterested panel of professional peers.
5. *The TV test*: Always ask, "Would I feel comfortable explaining to a national TV audience why I took this action?"
6. *The legal test*: Ask whether the proposed action or decision is legal. Established laws are generally considered minimum standards for ethics.
7. *The four-way test*: Ask whether you can answer "yes" to the following questions as they relate to the decision: Is the decision truthful? Is it fair to all concerned? Will it build goodwill and better friendships? Will it be beneficial to all concerned?

Finally, managers can take responsibility for creating and sustaining conditions in which people are likely to behave ethically and for minimizing conditions in which people might be tempted to behave unethically. Two practices that commonly inspire unethical behavior in organizations are giving unusually high rewards for good performance and unusually severe punishments for poor performance. By eliminating such factors, managers can reduce much of the pressure that people feel to perform unethically. They can also promote the social responsibility of the organization.

D. Ethical Principles

Beneficence

This priority to "do good" makes an ethical perspective and possible solution to an ethical dilemma acceptable. This principle is also related to the principle of utility, which states that we should attempt generate the largest ratio of good over evil possible in the world. This principle stipulates that ethical theories should strive to achieve the greatest amount of good because people benefit from the most good.

This principle is mainly associated with the utilitarian ethical theory. An example of "doing good" is found in the practice of medicine in which the health of an individual is bettered by treatment from a physician.

Least harm

This is similar to beneficence, but deals with situations in which neither choice is beneficial. In this case, a person should choose to do the least harm possible and to do harm to the fewest people. For instance, in the Hippocratic Oath, a physician is first charged with the responsibility to "do no harm" to the patient since the physician's primary duty is to provide helpful treatment to the patient rather than to inflict more suffering upon the patient.

One could also reasonably argue that people have a greater responsibility to "do no harm" than to take steps to benefit others. For example, a person has a larger responsibility to simply walk past a person rather than to punch a person as they walk past with no justified reason.

Respect for autonomy

This principle states that an ethical theory should allow people to reign over themselves and to be able to make decisions that apply to their lives. This means that people should have control over their lives as much as possible because they are the only people who completely understand their chosen type of lifestyle. Each man deserves respect because only he has had those exact life experiences and understands his emotions, motivations and body in such an intimate manner. In essence, this ethical principle is an extension of the ethical principle of beneficence because a person who is independent usually prefers to have control over his life experiences in order to obtain the lifestyle that he enjoys.

There are, however, two ways of looking at the respect for autonomy. In the paternalistic viewpoint, an authority prioritizes a dependent person's best interests over the dependent person's wishes. For example, a patient with terminal cancer may prefer to live the rest of his life without the medication that makes his constantly ill. The physician, on the other hand, may convince the patient and his family members to make the patient continue taking his medication because the medication will prolong his life. In this situation, the physician uses his or her authority to manipulate the patient to choose the treatment that will benefit him best medically. As noted in this example, one drawback of this principle is that the paternalistic figure may not have the same ideals as the dependent person and will deny the patient's autonomy and ability to choose his treatment. This, in turn, leads to a decreased amount of beneficence.

A second way in which to view the respect for autonomy is the libertarian view. This standpoint prioritizes the patient's wishes over their best interests. This means that the patient has control over her life and should be content with her quality of life because she has chosen the path of life with the greatest amount of personal beneficence. Although this viewpoint is more mindful of the patient's desires, it does not prevent the patient from making decisions that may be more harmful than beneficial.

Justice

The justice ethical principle states that ethical theories should prescribe actions that are fair to those involved. This means that ethical decisions should be consistent with the ethical theory unless extenuating circumstances that can be justified exist in the case. This also means that cases with extenuating circumstances must contain a significant and vital difference from similar cases that justify the inconsistent decision. An ethical decision that contains justice within it has a consistent logical basis that supports the decision. For example a policeman is allowed to speed on the highway if he must arrive at the scene of a crime as quickly as possible in order to prevent a person from getting hurt. Although the policeman would normally have to obey the speed limit, he is allowed to speed in this unique situation because it is a justified under the extenuating circumstances.

E. Ethical Theories

Ethical theories are based on the previously explained ethical principles. They each emphasize different aspects of an ethical dilemma and lead to the most ethically correct resolution according to the guidelines within the ethical theory itself. People usually base their individual choice of ethical theory upon their life experiences.

Deontology

The deontological theory states that people should adhere to their obligations and duties when analyzing an ethical dilemma. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct. For instance, a deontologist will always keep his promises to a friend and will follow the law. A person who follows this theory will produce very consistent decisions since they will be based on the individual's set duties.

Deontology provides a basis for special duties and obligations to specific people, such as those within one's family. For example, an older brother may have an obligation to protect his little sister when they cross a busy road together. This theory also praises those deontologists who exceed their duties and obligations, which is called "supererogation". For example, if a person hijacked a train full of students and stated that one person would have to die in order for the rest to live, the person who volunteers to die is exceeding his or her duty to the other students and performs an act of supererogation.

Although deontology contains many positive attributes, it also contains its fair number of flaws. One weakness of this theory is that there is no rationale or logical basis for deciding an individual's duties. For instance, businessman may decide that it is his duty to always be on time to meetings. Although this appears to be a noble duty we do not know why the person chose to make this his duty. Perhaps the reason that he has to be at the meeting on time is that he always has to sit in the same chair. A similar scenario unearths two other faults of deontology including the fact that sometimes a person's duties conflict, and that deontology is not concerned with the welfare of others. For instance, if the deontologist who must be on time to meetings is running late, how is he supposed to drive? Is the deontologist supposed to speed, breaking his duty to society to uphold the law, or is the deontologist supposed to arrive at his meeting late, breaking his duty to be on time? This scenario of conflicting obligations does not lead us to a clear ethically correct resolution nor does it protect the welfare of others from the deontologist's decision. Since deontology is not based on the context of each situation, it does not provide any guidance when one enters a complex situation in which there are conflicting obligations.

Utilitarianism

The utilitarian ethical theory is founded on the ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the choice that is ethically correct. One benefit of this ethical theory is that the utilitarian can compare similar predicted solutions and use a point system to determine which choice is more beneficial for more people. This point system provides a logical and rationale argument for each decision and allows a person to use it on a case-by-case context.

There are two types of utilitarianism, act utilitarianism and rule utilitarianism. Act utilitarianism adheres exactly to the definition of utilitarianism as described above. In act utilitarianism, a person performs the acts that benefit the most people, regardless of personal feelings or the societal constraints such as laws. Rule utilitarianism, however, takes into account the law and is concerned with fairness. A rule utilitarian seeks to benefit the most people but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values justice and includes beneficence at the same time.

As with all ethical theories, however, both act and rule utilitarianism contains numerous flaws. Inherent in both are the flaws associated with predicting the future. Although people can use their life experiences to attempt to predict outcomes, no human being can be certain that his predictions will be true. This uncertainty can lead to unexpected results making the utilitarian look unethical as time passes because his choice did not benefit the most people as he predicted. For example, if a person lights a fire in a fireplace in order to warm his friends, and then the fire burns down the house because the soot in the chimney caught on fire, then the utilitarian now seems to have chosen an unethical decision. The unexpected house fire is judged as unethical because it did not benefit his friends.

Another assumption that a utilitarian must make is that he has the ability to compare the various types of consequences against each other on a similar scale. However, comparing material gains such as money against intangible gains such as happiness is impossible since their qualities differ to such a large extent.

A third failing found in utilitarianism is that it does not allow for the existence of supererogation or heroes. In other words, people are obligated to constantly behave so that the most people benefit regardless of the danger associated with an act. For instance, a utilitarian who sacrifices her life to save a train full of people is actually fulfilling an obligation to society rather than performing a selfless and laudable act.

As explained above, act utilitarianism is solely concerned with achieving the maximum good. According to this theory an individual's rights may be infringed upon in order to benefit a greater population. In other words, act utilitarianism is not always concerned with justice, beneficence or autonomy for an individual if oppressing the individual leads to the solution that benefits a majority of people. Another source of instability within act utilitarianism is apparent when a utilitarian faces one set of variable conditions and then suddenly experiences a change in those variables that causes him to change his original decision. This means that an act utilitarian could be nice to you one moment and then dislike you the next moment because the variables have changed, and you are no longer beneficial to the most people.

Rule utilitarianism also contains a source of instability that inhibits its usefulness. In rule utilitarianism, there is the possibility of conflicting rules. Let us revisit the example of a person running late for his meeting. While a rule utilitarian who just happens to be a state governor may believe that it is ethically correct to arrive at important meetings on time because the members of the state government will benefit from this decision, he may encounter conflicting ideas about what is ethically correct if he is running late. As a rule utilitarian, he believes that he should follow the law because this benefits an entire society, but at the same time, he believes that it is ethically correct to be on time for his meeting because it is a state government meeting that also benefits the society. There appears to be no ethically correct answer for this scenario.

Rights

In the rights ethical theory the rights set forth by a society are protected and given the highest priority. Rights are considered to be ethically correct and valid since a large or ruling population endorses them. Individuals may also bestow rights upon others if they have the ability and resources to do so. For example, a person may say that his friend may borrow the car for the afternoon. The friend who was given the ability to borrow the car now has a right to the car in the afternoon.

A major complication of this theory on a larger scale, however, is that one must decipher what the characteristics of a right are in a society. The society has to determine what rights it wants to uphold and give to its citizens. In order for a society to determine what rights it wants to enact, it must decide what the society's goals and ethical priorities are. Therefore, in order for the rights theory to be useful, it must be used in conjunction with another ethical theory that will consistently explain the goals of the society. For example in India people have the right to choose their religion because this right is upheld in the Constitution. One of the goals of the founding fathers' of India was to uphold this right to freedom of religion. However, under Hitler's reign in Germany, the Jews were persecuted for their religion because Hitler decided that Jews were detrimental to Germany's future success. The Indian government upholds freedom of religion while the Nazi government did not uphold it and, instead, chose to eradicate the Jewish religion and those who practices it.

Casuist

The casuist ethical theory is one that compares a current ethical dilemma with examples of similar ethical dilemmas and their outcomes. This allows one to determine the severity of the situation and to create the best possible solution according to others' experiences. Usually one will find paradigms that represent the extremes of the situation so that a compromise can be reached that will hopefully include the wisdom gained from the previous examples.

One drawback to this ethical theory is that there may not be a set of similar examples for a given ethical dilemma. Perhaps that which is controversial and ethically questionable is new and unexpected. Along the same line of thinking, a casuistical theory also assumes that the results of the current ethical dilemma will be similar to results in the examples. This may not be necessarily true and would greatly hinder the effectiveness of applying this ethical theory.

Virtue

The virtue ethical theory judges a person by his character rather than by an action that may deviate from his normal behavior. It takes the person's morals, reputation and motivation into account when rating an unusual and irregular behavior that is considered unethical. For instance, if a person plagiarized a passage that was later detected by a peer, the peer who knows the person well will understand the person's character and will be able to judge the friend. If the plagiarizer normally follows the rules and has good standing amongst his colleagues, the peer who encounters the plagiarized passage may be able to judge his friend more leniently. Perhaps the researcher had a late night and simply forgot to credit his or her source appropriately. Conversely, a person who has a reputation for scientific misconduct is more likely to be judged harshly for plagiarizing because of his consistent past of unethical behavior.

One weakness of this ethical theory is that it does not take into consideration a person's change in moral character. For example, a scientist who may have made mistakes in the past may honestly have the same late night story as the scientist in good standing. Neither of these scientists intentionally plagiarized, but the act was still committed. On the other hand, a researcher may have a sudden change from moral to immoral character may go unnoticed until a significant amount of evidence mounts up against him or her.

F. Summary

Ethical theories and principles bring significant characteristics to the decision-making process. Although all of the ethical theories attempt to follow the ethical principles in order to be applicable and valid by themselves, each theory falls short with complex flaws and failings. However, these ethical theories can be used in combination in order to obtain the most ethically correct answer possible for each scenario.

For example, a utilitarian may use the casuistic theory and compare similar situations to his real life situation in order to determine the choice that will benefit the most people. The deontologist and the rule utilitarian governor who are running late for their meeting may use the rights ethical theory when deciding whether or not to speed to make it to the meeting on time. Instead of speeding, they would slow down because the law in the rights theory is given the highest priority, even if it means that the most people may not benefit from the decision to drive the speed limit. By using ethical theories in combination, one is able to use a variety of ways to analyze a situation in order to reach the most ethically correct decision possible (1).

We are fortunate to have a variety of ethical theories that provide a substantial framework when trying to make ethically correct answers. Each ethical theory attempts to adhere to the ethical principles that lead to success when trying to reach the best decision. When one understands each individual theory, including its strengths and weaknesses, one can make the most informed decision when trying to achieve an ethically correct answer to a dilemma.

Chapter III
Value-based management

A. Introduction

Over the last twenty years, the field of value-based management (VBM) has changed significantly. VBM began with a breakthrough performance metric and has matured into an entire management framework that focuses organizations around value creation. Companies and groups such as Tatas, Infosys and Wipro are often hailed for the great results they have achieved since implementing a VBM framework into their organization. Many companies already have or are adopting a "Managing for Value" mindset.

Value-based management is the alignment of key organizational processes such as strategic planning, budgeting, compensation, performance measurement, training, and communication around value creation. The organization needs this alignment and consistency to develop a culture whereby individuals, at all levels, will make decisions focused on sustainable long-term value creation. Value is created when owners receive a return that more than compensates them for the perceived risk of the investment. For example, if you are offered an investment opportunity that would pay Rs.10000/- in one year, would you accept? Maybe, but you would first want to know at least two other pieces of information: required investment and estimated project risk. Then, if you deemed that the potential reward compensated you for the perceived risk, you would accept the investment opportunity. With VBM, employees need to engage in the same thought process when considering investment/allocation of the firm's resources and ultimately when considering how to allocate their own time. The basic questions that need to be answered are:

1. How much do I have to invest in this project/activity?
2. What will my returns be for the project/activity?
3. Do the returns from the project/activity compensate me for the perceived risk?

A few key events have shaped VBM into a financial management framework. The seminal event was the movement from accounting-based measures of performance such as net income to value-based metrics, such as economic profit. Traditional accounting-based measures such as net income provide information on a company's book returns but do not address how much economic capital was invested, or amount of risk exposed to, to generate the returns on the investment. Economic profit addresses these shortcomings by including a capital charge. A capital charge is in essence a rental charge for the capital used to generate the firm's profits. To calculate the capital charge, you multiply the investment in the business by the investors' expected percentage returns. If your profits are more than the capital charge, then value is being created since investor expectations were exceeded. Alternatively, if the profits do not cover the capital charge then value is destroyed since the profits did not cover the capital charge.

B. An example to understand VBM

Let's take a quick look at a simple example to gain some insight into the benefits of economic profit. We will build on the example from above where we had the opportunity to earn Rs.10000/-. Let's assume that instead of one opportunity that we actually have two opportunities to earn Rs.10000/-. Should we pursue one, both, or neither?

If we are just concerned with growing net income, then our decision is easy. We would pursue both projects if each had positive net income. However, if we are concerned with value creation, we must find out how much we have to invest in each project and the expected return. Suppose the first project requires an investment of Rs. 50000/- while the second project requires an investment of Rs.100000/-. We also find out that both investments are of similar risk and require a 10% return. Let's now look at the analysis and make a decision:

Project 1

Profit - (Investment x investors' return expectations) = Economic profit.
Rs10000 - (Rs 50000 x 10%) = Rs 5000
Since economic profit is positive, we should pursue project 1.

Project 2

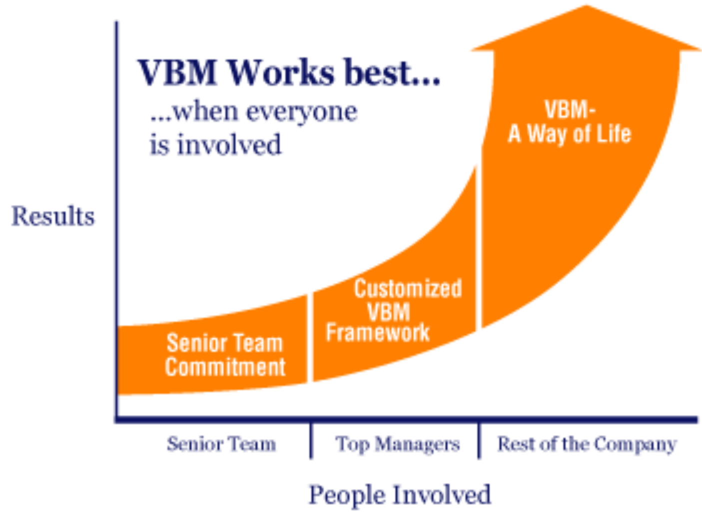
Profit - (Investment x investors' return expectations) = Economic profit.
Rs10000 - (Rs100000 x 10%) = 0
Since economic profit is zero we should not pursue project 2.

It did not take long for practitioners to realize that on its own, a performance-based metric was interesting, but for it to truly take hold, incentive programs would need to be redesigned. Thus, incentive plans were redesigned to pay people for value creation represented by improvement in economic profit.

Initially, companies thought that implementing new metric, tying incentives to the metric, and providing some initial training was all that was necessary for a successful VBM program. These are all necessary but not sufficient conditions for VBM to be successful. Rather they represent the price of admission to developing a VBM culture. The true gains are made when companies integrate VBM into their culture. Realizing that VBM is a cultural change is the key to lasting change that will create sustainable improvements in shareholder value.

C. The Implementation Process

As a company implements VBM, it will need to accomplish three steps: gain senior team commitment; customize the VBM framework; and finally, make VBM a way of life in the organization. The figure below highlights that companies create the most value when VBM is integrated into the culture of the organization.



Step 1. Gain Senior Management Commitment

VBM is similar to all other initiatives in one respect: Senior management needs to support VBM with their words and ultimately with their actions. It is up to the senior team to create a sense of urgency around the initiative and clearly communicate a vision of the impact that VBM will have on the organization. In short, they must make the reasons for VBM simple, clear and compelling.

Anything less than the full commitment of the senior team will ultimately cause the initiative to fail and simply become another "program of the month" that does not achieve the intended results. If VBM does not have the backing of senior management and the Board of Directors, do not pursue it, your organization will spend a lot of money, time, and energy without receiving adequate returns from your VBM investment.

Step 2. Develop a Customized VBM Framework

Implementing VBM requires an organization to redesign its management practices. The key management practices are performance measurement, compensation design, planning/budgeting, and training and communication programs. A brief overview of each of these areas along with some advice for each topic follows.

- *Performance measurement*

  The first step in customizing a VBM framework is to abandon accounting-based metrics and define a value-based measure, such as economic profit, as the key performance metric of the company. The overarching goal is to improve economic profit over the long-term. When a firm takes the long-term view, it is imperative to act in an ethical and socially responsible manner. Anything less may improve short term prospects but will not lead to long-term success.

  Remember, if improving economic profit is the goal of the organization, then people need to understand how it is calculated and ultimately how they can make decisions that improve economic profit.

- *Pay for performance*

  In the early days of VBM, companies tried to move to a value-based focus, but they did not achieve the expected improvement in results. It was soon realized that if you wanted people in the organization to focus on economic profit, then you had to compensate people for improvements in economic profit. Some key characteristics of value-based incentive plans compared to traditional plans are uncapped bonuses, targets based on market expectations, and the use of a bonus bank. A plan with these characteristics encourages participants to think like, act like, and be paid like owners.

  If the incentive plan is not adequately tied to value creation then a disconnect will occur between the creation of shareholder value and the manager's compensation. This disconnect may cause the actions of the managers to not be in the best interests of the shareholders.

- *Integrate new performance measures into planning and budgeting*

  The new performance measure needs to be at the heart of key management processes, such as budgeting, planning, and capital allocation. The organization has to have consistency around all of its key management practices so that improvement in economic profit over the long-term is the goal of the organization. A good exercise during the budgeting and planning process is to have business units calculate what level of bonus will be paid out if projected performance is met. This is an excellent way to move from a "manager" mindset to an "owner" mindset.

- *Develop initial training and communication plans*

  The organization needs to develop a plan and the necessary material to communicate the importance of managing for value and the basic concepts of VBM. People in the organization need to understand the basics of economic profit before they can be able to apply the concepts to daily decisions. Communication is the critical feedback loop so people can learn which actions are working and, just as important, which actions are not working so they can adjust what they do to create more value. An organization needs to develop a new reporting package that is easily understood by finance and non-finance employees alike. The results need to be communicated visually, timely, and accurately.

Step 3. Make VBM a Way of Life

The structure described above provides the necessary foundation for all organizations to begin the VBM journey. Now the hard work begins though. Companies must integrate VBM into their culture. VBM cannot be thought of as just an initiative but rather as a way of life. VBM needs to become a part of the drinking water, so to speak, meaning we have to turn our efforts to ensuring that everyone in the organization understands his o her role in creating value in the organization. This begins at the top of the organization and needs to be cascaded down the entire organization so each individual understands the big question, "How does our company create value?" -- and the even more relevant question, "How does my role and the daily decisions that I make impact value?" To reach this level, the organization will need to devote a significant amount of resources to provide the necessary learning, tools and feedback required so all individuals can understand their role in value creation. If you can lead your company to a place where everyone in the organization can answer the above questions, you are well on your way towards developing a culture focused on value creation.

By following these steps in an ethical and socially-responsible manner, your corporation will be well on its way to developing a successful VBM program, which can have a positive effect on the shareholders, employees, and the community in which the firm operates.

Chapter IV
The "Greening" of Management

A. The Concept

The Greening of Management is the recognition of the close link between an organization's decisions and activities and its impact on the natural environment. The concept has resulted from highly visible ecological problems and environmental disasters. The pace at which these problems are increasing with development, has wt warnings the world over. It is said that "The earth is not what we inherit from our ancestors but what we borrow from our grand children". It becomes our moral duty to see that in pursuit of economic motives, we do not endanger life itself'.

Being one of the important contributors in maligning the environment, reducing impact on the environment is a major priority in business today. While many businesses have become more conscious of their impact on the environment in recent years, many others continue to avoid environmental responsibility. Some cite costs; others cite the complexity of the undertaking.

Going green need not be daunting, complex or even costly, but it will entail making changes in the way we live, work and produce goods and services.

It all starts with the concept of **pollution prevention.** This is the activity of eliminating the creation of pollutants or wastes at the source, instead of trying to control the wastes once they have been generated. The object is to make the most efficient use of resources – materials, energy and water; and to minimize contamination, chemical and otherwise of the environment. It means taking a fresh look at your business and asking "Why?" "Why are we doing it like this?" "Why are we using this process?" and trying to find ways of doing business that prevent waste.

Along with the concept of pollution prevention and efficient use of resources, comes the 3R's of waste management. **Reduce, Reuse,** and **Recycle.** Reduction is the most beneficial and desirable. It is the idea of using less raw material (wood, metal, water, energy, chemicals, etc.) from the start, to produce as little waste as possible, save energy and resources, the next best thing is to reuse it if possible. Finally if you are unable to prevent waste from the start or to reuse the waste created then, recycling can be considered. Although recycling does help conserve resources and reduce wastes, there are economic and environmental costs from the waste collection and recycling processes.

Whether you work in a small business or a large organization, there are many things that you as an individual, can do to 'green' your business. By taking a careful look at your business procedures, identifying possible improvements and implementing and communicating changes, you can significantly reduce your impact on the environment.

Whether the business is big or small, the general goals of an environmentally responsible business are the same:

- to make the most efficient use of resources – materials, energy and water;

- to minimize contamination, chemical and otherwise, of the environment.

B. Benefits of Greening

Some of the benefits of greening or preventing pollution include:

Lower Operating Costs

Pollution prevention can save money, in disposal costs, new material costs, and improved operating efficiency.

Safer Conditions for Workers

By saving or eliminating toxins in the workplace, a business can improve the safety of a work environment as well as reduce the need for protective equipment. Added benefits are better labour relations and possibly lower insurance rates.

Reduced Costs of Compliance

Greening can sometimes eliminate the need for special permits and reporting. Not having to prepare lengthy reports can save the business money.

Environmental Protection

Pollution protection reduces the amount or toxicity of wastes at the source, this reduces the threat to the environment during subsequent management of the waste or from an accidental spill.

Reduced Future Liability

Costs of disposal, treatment or storage of waste or even the costs from recycling.

Quality Improvement

A successful pollution prevention program can be an important part of a businesses continuous improvement or quality management program. Reduced waste and improved efficiency are at the centre of pollution prevention.

Better Public Image

Improved morale and demonstration of the company's concern for the environment can improve the public's view of the company. The goal of a greening or pollution prevention program is to reduce the generation of all wastes to a minimum. Recognizing the benefits will help sell the program, but being aware of the possible obstacles can help you to triumph.

C. How to undertake greening?

Getting Started

While one understands and accepts the importance of greening, how to go about it is also important. Following are some steps to go green:

For larger businesses, management should be involved from the beginning; this will make it much easier to get things done. Ongoing support from management will make a dramatic difference in the success of the program. To help get staff committed to the program, involve staff as much as possible right from the beginning. For the smaller business, all it takes is the commitment from you, the owner.

Start by drafting a brief written policy statement supporting an environment protection program. This is a document that outlines the beliefs and commitment of your company with respect to the environment. It should contain; your firm's position on the environment, direction for future activities, guidelines for actions by employees, a demonstration of overall commitment, and highlight the benefits to the company. Identifying the major environmental issues for your business is necessary so that you can determine your firm's position about these issues. When developing your policy you may want to review samples of environmental policy statements developed by other companies, contact your industries association to obtain a sample of policies.

Environmental Team

A vital part of your commitment to green your business, is who you choose to help you with the process. If you have the resources (larger business), designating an environmental coordinator and team is very important. The coordinator should be well organized, innovative, flexible, open minded, excellent at communication, environmentally concerned, and interested in improving your business' environmental performance. Your coordinator should also be given enough authority and resources to get results from co-workers and to operate quickly and efficiently. The team should ideally have representation from all different areas of your business e.g. purchasing, warehouse, maintenance, manufacturing and office. With this representation the full impact of ideas and suggestions on all affected areas can be understood. Your team members should also be environmentally committed, creative, unbiased, and enthusiastic. Team members should be assigned specific tasks, allowing each member to make a valuable contribution. Meetings should be held on a regular basis to share information, results, concerns and to ensure everyone is working toward the same goals.

For the smaller business, the process is the same. The owner will be the coordinator and the environmental team. How much of the program you decide to implement will depend on your level of commitment and available time. Most business greening efforts start small, but once a person starts making changes, there is often a snowball effect. By taking action wherever you can, you can make a significant difference.

Environment Protection Plan

Next, come up with an environment protection plan. This plan is used to structure and outline the goals of the program. It can include the tools to involve the employees, team and company goals, criteria for selecting projects, implementation plans for projects, and a plan for employee training. Updating of the plan is essential to ensure that you are getting the results that you want.

The goals in the environment protection plan are key. They specify what is important to your business and what you hope to achieve. They give a real result to be reached and once achieved, are causes for celebration. They help to focus efforts and help create a team environment as people come together to achieve them.

Goals can be big or small, long or short term, specific to an area or general enough to apply to all. All types of goals are nice to have to ensure that you have successes that can be celebrated as you go. Goals should be achievable and realistic but also require effort and ingenuity.

Communication and involvement of partners/employees is another key element to the program's success. Make sure that there is clear understanding of what is going on and why. Explain the changes that are being made, and make sure there is full understanding of the new policy and procedures. Make available a list of the committee members so everyone knows whom they can contact.

Participation and volunteering should be encouraged. Let the employee's know they are making a difference, start an incentive program and make sure celebrations are inclusive of all participants.

Implementation Of The Environment Protection Plan

You and/or your employees represent the greatest opportunity for success of the environmental program. If everyone is interested and committed to the program, it will virtually run itself. However, if it is not supported, the program will have a hard time getting started and staying around. If everyone perceives the environmental program as 'theirs', they will make more of an effort towards making it a success.

If you have employees, establish a training/coaching program. Training should be introduced in a sensitive manner with strong consideration for the staff that will be affected. Begin raising environmental awareness and interest by providing information on local environmental issues that may be important to your staff. Try placing environmental information relevant to the business in an environment section on your bulletin board or in the lunchroom. Invite an environmental expert to make a presentation on some of the issues that are potential problems for your employees or business. This is also a great opportunity for owners and employees to ask vital questions that may require expertise. Provide practical guidance and support by giving training sessions that provide not only the practical application of the program but include a full picture so that staff has a complete understanding of the goals and benefits of the plan. Once they understand that the whole business is participating and the kind of results that can be achieved, there will be more willingness to participate. Motivation is important to ensure employee involvement. Try informing employees of the environmental objectives but also allow them to use their own creativity or innovation to determine how to meet those objectives. Be open to their ideas and suggestions. Give praise for involvement and initiative. Don't insist on mandatory involvement, if there is resistance sit down and talk with the resistors and find out what their concerns are. Pace the changes so staff is not faced with too many changes in a short space of time since it may be overwhelming for some people.

D. An example of Green management: Samsung Electronics

Samsung Electronics recognizes that working and prospering together with society is the only way to sustain corporate survival, and the Company is committed to making contributions to people everywhere. The Green Management Initiative places the priority on ESH concerns, as Samsung works to increase the “greenness” of management, products, processes, workplaces, and local communities.

The Greening of Management

The Company-wide Environment/Safety Management Committee has been formed to implement Green Management policy. The Committee sets targets for specific areas and establishes the mid-/long-term vision for the Company as a whole. In addition, the Company has embraced international ESH standards, installed the Green Management Information System (GMIS) and adopted environmental accounting practices, providing a framework for continued improvement.

The Greening of Products

Samsung Electronics is firmly established as a global company and is fulfilling its concomitant obligations by engaging in diverse activities based on a “product environment” strategy. The Company’s ability to develop environment friendly products continues to strengthen; a global recycling system is being established and the environment friendly corporate image is improving. The Company’s goal is to provide consumers with products that are the most environment friendly.

The Greening of Processes

Samsung Electronics has been working hard to reduce the use of substances that contribute to global warming. The Company is also devoting great effort into energy control, developing products that conserve electricity and reduce energy use. Production processes continue to be improved and new technologies are being developed to curtail the required amounts of industrial water and various material inputs. These combined efforts have made Samsung an industry leader in reducing the environmental load.

The Greening of Workplaces

Samsung Electronics practices an environmental management program that minimizes pollutants from production processes. Strict control at the source of pollution generation and ongoing process improvements are reducing pollution emissions. Company policy dictates that the party who generates the waste is responsible for disposing of it properly. Therefore, Samsung is expanding its in-house treatment and recycling facilities, and the Company engages in various activities to protect resources and nature.

The Greening of Communities

Samsung Electronics' Green Management covers all work processes such as product development, manufacturing, and sales in step with the Greening of Management, Product, Process and Workplace programs. At the same time, the Company is committed to the Greening of the Local Community.