

## PROMOTING ORGANIZATIONAL CITIZENSHIP

**Chapter Preview**

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In this chapter, we'll look beyond the borders of our organizations to focus on the role that they should play in local and national communities. Our individual responsibility is to equip our groups to act as socially responsible citizens. The first section of the chapter describes what it means for an organization to act as a citizen. Section two outlines strategies for encouraging our organizations to play this role.

## THE ORGANIZATION AS CITIZEN

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“From those to whom much has been given, much will be required.” That saying encapsulates the relationship between organizations and Western society over the past several decades. Organizations wield more power than ever before. The decline of the extended family, urbanization, industrialization, and other factors have increased our reliance on corporations, governments, schools, nonprofit agencies, and other institutions. At the same time, societal expectations of organizations have greatly expanded. We now demand that organizations, even for-profit entities, behave responsibly. As evidence of that fact, consider the following:<sup>1</sup>

- 79% of Americans believe that businesses should support social causes; 90% say companies should operate in ways that benefit society and environment; three

quarters of business leaders say that the public should expect good citizenship from corporations.

- Nearly nine out of 10 millennials (those born between 1982 and 2004) from around the world believe “the success of a business should be measured in terms of more than just its financial performance.”
- A Nielsen survey of survey of 30,000 citizens in 60 countries found that 60% were willing to pay more for sustainable brands, up from 50% two years before. Commitment to sustainable products and services crossed all income levels and was highest in Latin America, Asia, the Middle East, and Africa.
- Organic foods, once sold only in specialty markets, are now carried by Walmart, Safeway, and other major food chains.
- \$6.57 trillion in U.S. assets (1 out of every 6 dollars under professional management) is held in funds that invest only in companies that meet high environmental, social, and corporate governance standards.
- America’s Most Admired Companies earn that label in part because they are concerned about the community and the environment.
- Watchdog groups regularly monitor the financial status and effectiveness of charities.
- Labor activists, disability advocates, environmentalists, and other groups are quick to bring suit against governments and businesses that don’t fulfill their social duties.

The term *organizational citizenship* best describes what society expects from businesses, governments, and nonprofits. Good citizens acknowledge their obligations to their communities. They use their influence to improve society.<sup>2</sup> Sandra Waddock offers this definition of outstanding corporate citizenship:

Leading corporate citizens are companies that live up to clear constructive visions and core values consistent with those of the broader societies within which they operate, respect the natural environment, and treat well the entire range of stakeholders who risk capital in, have an interest in, or are linked to the firm through primary and secondary impacts . . . They recognize they are responsible for their impacts and are willing to be held accountable for them.<sup>3</sup>

Four components or elements are key to the practice organizational citizenship: (1) a stakeholder focus, (2) corporate social responsibility (CSR), (3) corporate advocacy, and (4) sustainability.

## Components of Organizational Citizenship

### Stakeholder Focus

To function as citizens, organizations must first recognize that they have obligations to a variety of groups who have an interest or “stake” in their operations. The stakeholder framework first developed as an alternative way to define the relationship between large

businesses and society but since has been extended to organizations of all types—partnerships, small businesses, governments, and nonprofits.<sup>4</sup> Traditionally, corporate executives were viewed as agents who acted on behalf of the company's owners. According to this perspective (called *agency theory*), the manager's primary ethical obligation is to promote the interests of stockholders. Companies that operate efficiently and profitably benefit the community through the creation of jobs and wealth as well as through higher tax revenues.

Stakeholder theorists challenge the notion that a manager's sole moral duty is to company owners.<sup>5</sup> They note that the pursuit of corporate wealth doesn't benefit everyone. When a major retailer like Walmart forces its suppliers to cut costs, for example, lots of groups suffer. Employees manufacturing the goods see their wages and benefits cut, and jobs are lost; local businesses and economies decline. Also, shareholders aren't the only groups with an interest or stake in what the company does. Governments charter corporations based in part on the expectation that they will provide benefits to society. Governments invest in businesses by supplying them with cheap land, building access roads, and offering tax breaks.

Advocates of stakeholder theory argue that organizations of all kinds have an ethical obligation to "heed the needs, interests, and influence of those affected by their policies and operations."<sup>6</sup> Drawing from Kant's categorical imperative, some proponents believe that all stakeholders have intrinsic value.<sup>7</sup> It is wrong to use any group of people as a means to organizational ends. The interests of diverse stakeholder groups are valid and worthy of respect. Other supporters of this approach draw upon justice-as-fairness theory to emphasize that outside groups and individuals need to be treated fairly by the organization.<sup>8</sup> Still others believe that the stakeholder framework best reflects the feminist commitment to relationships. Feminists see corporations as webs of relationships with stakeholders, not as independent entities.<sup>9</sup> One final group adopts a communitarian perspective, which emphasizes the importance of serving the common good. They point out that serving stakeholders, not just stockholders, is more likely to promote cooperation and the development of networks that advance the overall good of society.<sup>10</sup> Recognizing the concerns of multiple stakeholders has strategic as well as ethical implications. Identifying the needs of stakeholders should be part of any major decision, like entering additional markets, establishing a new social service program, or changing an investment strategy. You will want to engage in stakeholder management in order to improve organizational performance at the same time that you respond to your moral responsibilities. Stakeholder management means answering five key questions:<sup>11</sup>

1. *Who are our stakeholders?* Categorizing stakeholders can make it easier to answer this question. Those with an interest in the organization can be classified as primary or secondary stakeholders. Primary stakeholders—customers, investors, employees, suppliers—have a direct stake in the organization's success or failure and thus exert significant influence. Their interests generally are given priority. Secondary stakeholders—social pressure groups, media, trade bodies—have an indirect stake in the organization. Accountability to these groups is therefore less.
2. *What are our stakeholders' stakes?* Stakeholder groups have different interests, concerns, and demands. Some of these stakes are more legitimate than others. Owners, for example, have a legal interest in a corporation, while suppliers do not. Further, some groups have more power than others. The board of trustees of a university system typically wields more power than the faculty or students.

3. *What opportunities and challenges do our stakeholders present?* Opportunities allow organizations to build cooperative, productive relationships with stakeholder groups. An inner-city church, for instance, might view other religious groups, local merchants, civic associations, and government agencies as potential allies in combating neighborhood blight. Challenges take the form of demands from groups who believe that the organization is at fault. These must be handled carefully, or they may result in significant damage. Home Depot faced such a challenge from the Rainforest Action Network. The retailer pulled old-growth lumber from the shelves after the environmental group threatened to picket if it did not.
4. *What responsibilities does the firm have to its stakeholders?* These include, for example, economic, legal, ethical, and environmental duties
5. *What strategies or actions should management take to best handle stakeholder challenges and opportunities?* Organizations can take the offensive or go on the defensive when dealing with stakeholders, decide to accommodate or negotiate, use one strategy or a combination of several, and so on. One consideration is the potential for cooperation or threat posed by a particular group. Typically, the best strategy is to become involved with groups that are currently supportive or could be cooperative in the future and to defend against those who pose a significant threat.

University of Virginia business professor Edward Freeman and his colleagues urge organizations to focus on creating value for all stakeholders.<sup>12</sup> Freeman believes that it is possible to simultaneously meet the needs of a variety of groups. For instance, companies are more likely to survive over the long term if they generate profits for owners and at the same time treat employees well, deal fairly with suppliers, and serve the community. Trade-offs—meeting the needs of one group at the expense of another—are inevitable but should not become standard operating procedure. Freeman is also convinced that businesses should take the initiative to engage all stakeholders in dialogue, including those who could be seen as a threat. It is not always possible to satisfy every critic, but opponents provide an alternative point of view. Understanding their concerns can open up new opportunities to generate value (e.g., enter new markets, reduce costs). Engaging with both primary and secondary stakeholders also provides information that can be used to better meet their needs.

In addition to managing ongoing relationships with stakeholders, organizations also need to identify and respond to changing social and ethical conditions. This process is called *issues management*. Ethical sensitivities and moral customs continually evolve. Smoking, which once was allowed nearly everywhere in this country, is now banned from many indoor public spaces, for instance. Same-sex marriages, which used to be banned, are now legal.

Issues management is a function of public relations departments at a number of major corporations, though it can also be housed in other departments like legal, government relations, or quality assurance. SC Johnson credits its issues management program for the firm's decision to eliminate fluorocarbons from aerosol sprays three years before federal regulations took effect. Coke and other beverage companies are marketing lower calorie drinks as concerns about obesity grow.<sup>13</sup> It would be wrong to make issues management solely the responsibility of public relations or another department, however. Companies skilled at issues management place individuals from a variety of functional areas on their issues management teams.<sup>14</sup> Then, too, all employees have a responsibility to be on the

lookout for future trends through scanning and monitoring. In this context, *scanning* refers to surveying the environment to identify potential issues that might impact your organization. Surf the Web; monitor tweets, Facebook, blogs, and YouTube; read a wide variety of issues-oriented print and online publications (*The Nation*, *Huffington Post*, *The Standard*, for example); track news sources and talk shows; and interact with stakeholder groups.

One model of the stages of issue development is shown in Self-Assessment 11.1. You can monitor the progress of any issue using this format. Take the issue of global warming, for example. At first, only a few environmental groups were aware of this problem, and evidence of its existence was scarce. Next, the issue began to grab political and media attention, and some businesses began to take note. Currently, this concern appears to be moving from the consolidating to the institutionalized stage with increasing recognition of the ethical dimension of the problem. A number of nations have passed measures aimed at reducing greenhouse emissions, and businesses around the world have joined in the effort to combat global warming.

## SELF-ASSESSMENT 11.1

### The Four Stages of Issue Maturity Scale

and the public's expectations surrounding the issues. An adaptation of the scale appears here.

Pharmaceutical company Novo Nordisk created a scale to measure the maturity of societal issues

Stage	Characteristics
Latent	<p>Activist communities and NGOs (nongovernmental organizations) are aware of the societal issue.</p> <p>There is weak scientific or other hard evidence.</p> <p>The issue is largely ignored or dismissed by the business community.</p>
Emerging	<p>There is political and media awareness of the societal issue.</p> <p>There is an emerging body of research, but data are still weak.</p> <p>Leading businesses experiment with approaches to dealing with the issue.</p>
Consolidating	<p>There is an emerging body of business practices around the societal issue.</p> <p>Sectorwide and issue-based voluntary initiatives are established.</p> <p>There is litigation and an increasing view of the need for legislation.</p> <p>Voluntary standards are developed, and collective action occurs.</p>
Institutionalized	<p>Legislation or business norms are established.</p> <p>The embedded practices become a normal part of a business-excellence model.</p>

Brainstorm three or four ethical issues that could pose a challenge to your college or university or your employer. Track each issue's stage

of development using the issue maturity scale. Determine how your school or employer should respond to each issue.

*Source:* Zadek (2004), p. 128. Used by permission.

Once an issue has been identified, determine its significance and its likely impact. Evaluate the issue according to magnitude and probability.<sup>15</sup> Some issues have low probability and magnitude. They are not likely to affect the organization and, if they do, their effects will likely be minimal. These developments should be given low priority. Focus instead on issues with higher probability and magnitude. Create a list of these high-priority issues and develop strategies for responding to them. Failure to prepare can have disastrous effects. Beef producers underestimated how concerned U.S. residents are about food—and particularly meat—safety. When media reports surfaced that “pink slime” (officially known as “lean finely textured beef” made from meat scraps) was being used in hamburger, the meat industry stood by instead of promoting the safety of its products. (Lean finely textured beef has been tested over 7,000 times for the school lunch program and has never been linked to food-borne illness.) Activists then succeeded in getting fast food chains and supermarkets to pull meat with pink slime from menus and shelves and several midwestern meat-processing plants closed as a result.<sup>16</sup> (Case Study 11.1, “Why the Circus No Longer Comes to Town,” describes two companies that failed to respond effectively to the same issue.)

### Corporate Social Responsibility

Corporate social responsibility (CSR) describes the efforts of companies and other organizations to actively improve the welfare of society. Not everyone is supportive of such activities. Some follow the lead of economist Milton Friedman, who argued that business should focus solely on making profits.<sup>17</sup> Managers who give to philanthropic causes are not only deciding how to spend the money of stockholders without their consent, but they also lack the skills to effectively address social concerns. Dealing with social problems is best left to the government. Disciples of Friedman worry that if businesses are distracted from their primary goal, they will generate less economic activity, which will mean fewer jobs and lower tax revenues. In other words, society benefits more if business sticks to business. Others take issue with claims that CSR adds to the bottom line, noting that while some companies see higher profits from CSR activities, many others do not. Skeptics note that CSR can be used as a public relations “smokescreen,” enabling firms to burnish their images while still behaving unethically. Encouraging corporations to become more active in meeting social problems appears to further increase the influence of business, which already wields tremendous economic and political power.<sup>18</sup>

CSR critics make some valid points. There is no guarantee that citizenship will lead to higher profits. Some firms employ CSR activities for public relations purposes only. We should be concerned about the amount of power wielded by multinational corporations (see Chapter 12). But the objections of CSR detractors fall short. Friedman seems to equate CSR with philanthropy. As we’ll see, CSR activities extend well beyond corporate giving, and many organizations (Timberland, Interface, Tom’s Shoes) build CSR into their corporate DNA. Governments, by themselves, have not always been able to effectively deal with social problems. While not every company benefits financially from being socially responsible, many do.<sup>19</sup> Participating in CSR activities can pay significant dividends. Studies reveal that engaging in social responsibility efforts improves a firm’s reputation while increasing customer loyalty and ratings of its products. Employees who work for socially responsible firms are more likely to identify with their employers, while getting along better with fellow workers. They perform better, stay with the company longer, and engage in more

organizational citizenship behaviors. CSR also makes a company more attractive as a prospective employer.<sup>20</sup>

From an ethical perspective, being a corporate citizen appears to be the right thing to do. CSR behaviors are altruistic, contribute to the common good, treat others with dignity, are just, and so on. Finally, as we noted at the beginning of the chapter, society expects more from its organizations than ever before. Corporations must be good citizens or risk being punished by investors and consumers alike.

CSR efforts can take many different forms. To demonstrate the wide scope of CSR activities, I'll describe three different typologies. The first typology is the CSR pyramid developed by Archie Carroll.<sup>21</sup> *Economic responsibilities* form the base of Carroll's CSR Pyramid. Businesses have a duty to be profitable so they can provide goods and services, pay employees, and reward investors. If they go bankrupt, they cannot carry out the duties to follow. *Legal responsibilities* make up the next level of the CSR pyramid. Corporations and small businesses must obey employment laws, follow environmental regulations, honor contracts, make good on warranties and guarantees, and so on. However, the law only outlines minimum acceptable behavior. Legal regulations don't cover all situations and what is legal is not always moral. As a result, corporations should move to the next stage of the pyramid—*ethical responsibilities*. They must live up to the ethical values and standards of society, which include being fair and just and doing the right thing. *Philanthropic responsibilities* are at the top of the CSR pyramid. At this level businesses voluntarily give back to the community through making contributions, donating goods and services, employee volunteerism, partnering with nonprofits and other means.

A second classification system divides CSR activities according to the domain or area they are designed to impact.<sup>22</sup> According to this typology, CSR efforts address four domains:

*Human resources: The development of protection of people.* For example: providing a safe work environment, fairly compensating workers, offering training opportunities, refusing to support organizations that engage in child labor or slavery.

*Community, cultural, and societal involvement and philanthropy.* For example: respecting the culture and rights of indigenous people, obeying laws and regulations, giving back to the community through donations, foundations, and volunteerism.

*Environmental protection, waste reduction, and sustainability.* For example: restoring biodiversity, eliminating waste, treating animals humanely, recycling, reducing energy and water use.

*Product, consumer, and service contributions and protections.* For example: protecting consumers, using renewable materials in manufacturing, providing truthful information about the environmental impacts of products, buying in a socially responsible manner from minority, indigenous, and women-owned businesses.

A third approach ties CSR strategies to the particular stakeholder groups.<sup>23</sup> See Ethical Checkpoint 11.1 for a list of CSR actions aimed at important stakeholder groups.

# ETHICAL CHECKPOINT 11.1

## Stakeholder Approach to CSR

Stakeholder	Actions
Employees	Provides a family friendly work environment
	Engages in responsible human resource management
	Provides an equitable reward and wage system for employees
	Engages in open and flexible communication with employees
	Invests in employee development
	Encourages freedom of speech and promotes employees' rights to speak up and report their concerns at work
	Provides child care support/paternity/maternity leave in addition to what is expected by law
	Engages in employment diversity in hiring and promoting women, ethnic minorities, and those with physical disabilities
	Promotes dignified and fair treatment of all employees
Consumers	Respects the rights of consumers
	Offers quality products and services
	Provides information that is truthful, honest, and useful
	Products and services provided are safe and fit with their intended use
	Avoids false and misleading advertising
	Discloses all substantial risks associated with products or service
	Avoids sales promotions that are deceptive/manipulative
	Avoids manipulating the availability of a product for purpose of exploitation
	Avoids engagement in price fixing
Community	Fosters reciprocal relationships between the corporation and community
	Invests in communities in which the corporation operates
	Launches community development activities
	Encourages employee participation in community projects

Stakeholder	Actions
Investors	Strives for a competitive return on investment
	Engages in fair and honest business practices in relationships with shareholders
Suppliers	Engages in fair trading transactions with suppliers
Environment	Demonstrates a commitment to sustainable development
	Demonstrates a commitment to the environment

Source: Jamili (2008). Used by permission.

### Corporate/CEO Activism

In recent years corporate activism, also known as “CEO activism” and “corporate social advocacy,” has emerged as a new component of organizational citizenship. Companies engaged in corporate activism take moral stances on social-political issues like gay marriage, race relations, immigration bans and LGBT freedoms.<sup>24</sup> Corporations have traditionally taken positions related to their business interests, such as when an oil company pushes the federal government to open up new areas for off-shore drilling. In corporate social advocacy, however, firms take public positions on issues that are not directly related to their operations. In the past CEOs were reluctant to speak out about social issues for fear of alienating customers, believing “it is better to be seen than heard.” They followed the lead of basketball star and athletic shoe promoter Michael Jordan. Jordan refused to support a Democratic North Carolina Senate candidate, noting “Republicans wear shoes too.” Now CEOs are speaking out. One group of business leaders signed a letter protesting President Trump’s ban on Muslim immigrants and others signed a letter asking him not to withdraw from the Paris climate accord. PayPal, Deutsche Bank, the National Basketball Association, and other companies retaliated against North Carolina after the state passed a law (later modified) requiring transgender individuals to use the bathrooms that match the sex listed on their birth certificates. CEOs at Angie’s List, Anthem, Eli Lilly, and Salesforce led efforts to repeal a similar law in Indiana. However, corporate activism isn’t limited to one side of the political spectrum. Chick-Fil-A CEO Don Cathy stated his opposition to gay marriage, and Hobby Lobby fought efforts to require coverage of birth control under the Affordable Care Act.

Several factors appear to be driving CEO/corporate advocacy.<sup>25</sup> First, for some firms like Starbucks, political stances appear to be a natural outgrowth of their commitment to social responsibility. Starbucks has taken positions on everything from addressing unemployment to helping impoverished communities. The public increasingly expects companies to speak out on societal issues, particularly those firms that tout themselves as socially conscious. Second, it makes sense for companies who have invested millions in fostering diverse workforces to support diversity in society. Failure to do so would undercut their credibility with employees. Third, in the age of social media CEOs can speak directly to consumers. Four, many employees, particularly millennials, want their leaders to speak out. They may change companies if their CEOs do not. This is a particular concern for high tech companies who face a shortage of qualified workers. Finally, some CEOs believe that

they have an ethical/moral duty to take stances. That's the motivation for Marc Benioff, CEO and founder of SalesForce:

I think that CEOs today and business leaders are as important as political leaders and that they have a role like political leaders, which is that they have to stand for something. When things happen in the world that you don't agree with, as a CEO, you have a responsibility to come forward and say, "hey, I don't agree with that because it doesn't support my employees, or it doesn't support my customers."<sup>26</sup>

Corporate advocacy can have an impact. The "bathroom bills" in Indiana and North Carolina were repealed or modified in response to business pressure. Corporate pressure also kept Georgia from adopting such a law. In one research project, respondents were less likely to support Indiana's bathroom bill when they read a message from Apple CEO Tim Cook opposing the legislation. Those who agreed with Cook's stance on gender discrimination were more likely to buy Apple products than those who disagreed with him.<sup>27</sup> An online survey by Weber Shandwick found that 38% of consumers think CEOs should address controversial social issues. Only 20% were favorable to CEOs speaking out on issues not directly tied to a firm's business, however. Many were skeptical of the CEOs' motivation, with one-third believing that corporate leaders taking political stands did so to get media attention.<sup>28</sup>

Companies taking social positions run the risk of reflecting the political divisions of the country, being seen as red (Republican) or blue (Democrat). Every social stance seems to generate a counter stance. When Starbucks said it would hire 10,000 immigrants, for instance, it was the target of a boycott. (See Contemporary Issues in Organizational Ethics 11.1 for more examples of counter activism.) Companies might alienate employees who don't support their positions. Politicians sometimes resent business pressure, as in the case of former Louisiana Governor Bobby Jindal, who accused pro-LGBT rights companies of "bullying" elected officials. Despite the risks, expect more CEOs to speak out. Corporate activism seems to be following the pattern of CSR, which went from voluntary to a "public expectation."<sup>29</sup> Remaining silent also sends a message. According to Harvard Business School professor Michael Toffel, "I think silence is also political. I think people are starting to interpret that."<sup>30</sup>

## CONTEMPORARY ISSUES IN ORGANIZATIONAL ETHICS 11.1

### THE RISE OF CONSUMER BOYCOTTS

Consumers are increasingly voicing their frustrations through boycotts of products and organizations. Uber was the subject of a #DeleteUber boycott

for appearing to undercut a New York City Muslim immigration ban protest; #GrabYourWallet urges shoppers to avoid L.L. Bean, Bloomingdales, Macy's,

and other retailers selling Trump goods. Evangelical Christians targeted Target and Wells Fargo over their support for marriage equality.

Consumer boycotts are not always as effective as their proponents hope. Often a boycott from the left or right sparks a counterresponse from the other side. Liberals boycotted Chick-Fil-A after its CEO condemned homosexuality. Shortly thereafter, conservative commentator Mike Huckabee launched a “Support Chick-Fil-A Day,” which prompted 125,000 customers to flock to the chain’s outlets. Then, too, other factors come into play when making buying decisions. Consumers may not think that the issue is that serious, may be confused about the sheer number of boycotts, might not have many other options (Walmart may be the only major store in a rural area, for instance), could be attracted by the features and prices of a company’s products, and so on. Take the case of the eight-year Disney boycott, launched by Southern Baptists in 1996 to protest Disney’s support for gay rights. This action did not change Disney’s position. As one observer noted, “It turns out that too few parents had the heart to deny their children Disney products to make a boycott effective.”<sup>1</sup>

Sources: Klein, Smith, and John (2004). Levick (2015). Statt (2017).

The most successful boycotts are those focused on a single company over a single issue, such as the boycott of Nike for its labor practices in the 1990s or the boycott of college bookstores selling garments manufactured in sweatshops. In the words of Arcadia professor Eric McInnis: “Strangling one company into bankruptcy sends a much more frightening message than lowering the weekly sales of a dozen retailers.”<sup>2</sup>

Advertiser boycotts appear to bring about greater change than consumer boycotts. Fox News fired both Glenn Beck and Bill O’Reilly after BMW and other companies pulled their ads. A number of major corporations in the UK and U.S.—Amazon, Verizon, AT&T, Microsoft—withdraw their advertising from Google after their ads appeared in websites and YouTube videos containing hate speech and other objectionable material. These firms vowed not to return to these platforms until Google did a better job of policing them. Google immediately pledged to institute better filtering tools.

## Notes

1. J. Davis (2017).
2. McInnis (2017).

## Sustainability

As we saw in the previous section, treating the environment well is an important social responsibility. In fact, environmental care or *sustainability* serves as the primary standard or guideline for corporate citizenship in Europe and other parts of the world. Sustainability means preserving the natural environment while at the same time creating long-lasting economic and social value. Sustainable organizations want to meet their current needs, but they want to do so in a way that doesn’t reduce the ability of future generations to meet their needs.<sup>31</sup> They adopt a long-term perspective, hoping to create conditions that foster decades of economic health and social responsibility and ensure the well-being of future generations. Corporate citizens reduce greenhouse gases and waste, develop environmentally friendly products, and so on. (One list of sustainable practices is found in Ethical Checkpoint 11.2.)

## ETHICAL CHECKPOINT 11.2

### **CERES Principles**

CERES, a nonprofit organization dedicated to sustainability, published the following corporate environmental conduct principles right after the 1989 crash of the Exxon Valdez oil tanker that caused significant environmental damage in Alaska's Prince William Sound. Companies that pledge to adhere to these principles also commit themselves to publicly reporting on their performance.

#### *Protection of the Biosphere*

We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth and its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.

#### *Sustainable Use of Natural Resources*

We will make sustainable use of renewable natural resources, such as water, soils, and forests. We will conserve non-renewable natural resources through efficient use and careful planning.

#### *Reduction and Disposal of Wastes*

We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe and responsible methods.

#### *Energy Conservation*

We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

#### *Risk Reduction*

We will strive to minimize the environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and by being prepared for emergencies.

#### *Safe Products and Services*

We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform our customers of the environmental impacts of our products or services and try to correct unsafe use.

#### *Environmental Restoration*

We will promptly and responsibly correct conditions we have caused that endanger health, safety or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have

caused to the environment and will restore the environment.

#### *Informing the Public*

We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

#### *Management Commitment*

We will implement these Principles and sustain a process that ensures

the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.

#### *Audits and Reports*

We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the Ceres Report, which will be made available to the public.

*Source:* CERES. Retrieved from <http://www.ceres.org/about-us/our-history/ceres-principles>. Used by permission.

The need for sustainable business practices is great because the natural world is under assault, largely because of population growth. The world's population is expected to grow from over 7.3 billion in 2016 to around 9.7 billion by 2050.<sup>32</sup> (Africa will account for half of this population increase.) More people means more air and water pollution, deforestation, flooding, climate change, water shortages, soil erosion, and species loss. (A quarter of all mammals and a third of all amphibians face extinction within the next 30 years.) Affluence also stresses the environment. As families around the world reach the middle class, they buy more consumer products and often change their diets. There are now an estimated 1.2 billion cars on the road and millions of Asian consumers are developing a taste for meat. A pound of beef takes 16 pounds of grain to produce; meat production demands lots of water, energy, and fertilizers while producing tons of animal waste.

Sustainability is a high standard that demands constant improvement. For instance, manufacturers seeking to boost their environmental records generally begin by transitioning from pollution control to pollution prevention.<sup>33</sup> Instead of cleaning up messes after they occur, they try to prevent them from happening in the first place by reducing smoke-stack emissions and waste. Such tactics can greatly reduce the costs of disposing of toxic substances. However, if manufacturers want to continue to improve, they shift their focus

from minimizing pollution to considering all the possible environmental impacts over the life cycle of a product. They create goods that are easier to recover, recycle, or reuse. Xerox took this approach by taking parts from leased copiers and reconditioning them for use in new machines. If environmentally conscious organizations want to progress still further, they must invest in clean technology that is environmentally sustainable. Hybrid gas and electric cars are a step in this direction. So are BMW automobiles, which are built to be easier to disassemble when they leave the road for good.

While sustainability efforts can be expensive, more often than not they boost profits. Throwing away less translates into lower raw materials costs and disposal fees. Spanish stone company Cosentino uses 95% of all the material it extracts from its mines, a much higher percentage than its competitors.<sup>34</sup> Recycling parts, as in the case of Xerox, reduces costs yet further. Sustainable firms greatly reduce the risk of being sued or fined for environmental infractions like polluting rivers or producing toxic emissions. They enjoy better relationships with activists, local communities, and other stakeholder groups. Their corporate reputations or “brands” get a boost. Consumers and investors reward companies with good environmental records through purchases and investment. Those working for such firms are more committed to their organizations and more willing to put forth effort. Higher employee engagement, in turn, produces higher productivity and revenue.

Sustainability increased employee engagement and profit at one large restaurant chain.<sup>35</sup> While the chain’s customers weren’t too concerned about the environment, employees at this chain were. Company leaders created green teams of frontline employees and charged them with addressing the results of an environmental audit. Auditors found widespread waste. Some stores left their lights and appliances on 24 hours a day, many used excessive amounts of water, few had recycling or composting programs, and waste disposal costs were not tracked. The green teams reduced these wasteful practices, saving each restaurant \$10,000 a year while heightening the level of employee engagement.

Individuals can play an important role in promoting sustainability initiatives. Take the case of Sweden’s Per Carstedt, for example.<sup>36</sup> Due in large part to his efforts, Sweden is one of the world leaders in reducing dependence on fossil fuels. Carstedt, who owned a Ford dealership, convinced the Ford Motor Company to provide him with vehicles that burned ethanol. Then he and colleagues from a biofuels institute persuaded 500 municipalities, companies, and individuals to buy flexi-fuel vehicles and talked filling stations into selling ethanol fuel. Later Carstedt and his allies moved toward other energy sources, such as forestry industry waste, that don’t come from food crops and generate lower greenhouse emissions. His next project was to build the world’s “most environmentally friendly car dealership.” To reach this goal, he built a block of interconnected businesses called a Green Zone which reduced overall energy consumption by 80%. Excess heat from the kitchen of a McDonalds, for example, was used to warm a gas station and the car dealership. The Green Zone became the inspiration of a larger BioFuel Region focused on developing renewable energy supplies.

## The Stages of Corporate Citizenship

Becoming an outstanding citizen doesn’t happen overnight. Scholars at Boston College’s Center for Corporate Leadership believe that organizational citizenship follows a developmental path.<sup>37</sup> At each stage, corporate citizenship efforts become more aligned, integrated

and institutionalized. Alignment means tying corporate citizenship to business objectives and developing a coherent citizenship framework and strategy. Integration describes embedding corporate citizenship principles and practices throughout the organization and creating systems that cross departmental and functional boundaries. Institutionalization refers to ensuring that corporate citizenship is sustained by making it part of the standard way of doing business. For example: incorporating citizenship into mission and values and embedding it into the group's culture.

Knowing your company's stage of development can help you identify the challenges the group faces and set goals for going forward.

*Stage 1: Elementary.* This is the lowest developmental stage. Companies at this stage don't understand corporate citizenship. They are interested only in complying with laws and industry standards. Department heads make sure the company obeys the law to prevent harm to the group's reputation. Nike was in this phase when it was first accused of abusive labor practices in the 1990s and claimed that it had no responsibility for the actions of its overseas contractors. Credibility is the primary challenge for elementary-level firms. Their reputations are particularly vulnerable to crises, such as when outside groups challenge their employment practices or treatment of the environment.

*Stage 2: Engaged.* These organizations have "awakened" to the need for social responsibility. DuPont's leaders, for example, determined that the company would move from complying with environmental regulations to actively seeking to win the public's trust. Engaged companies adopt policies to lower the risk of lawsuits and reputational damage. These policies generally call for exceeding legal requirements for safety, environmental health, and employment. Engaged firms enter into two-way communication with stakeholders like community groups and NGOs. Corporate units begin to participate in CSR efforts. Developing capacity is the biggest challenge in this phase. The group must develop its ability to address a variety of needs, which can seem overwhelming. As Case Study 11.2 suggests, Facebook appears to be in this stage of development.

*Stage 3: Innovative.* Organizations in the innovative stage implement creative ways to improve and measure social performance. In this stage, leaders become even more involved in CSR, engage in dialogue with a greater variety of stakeholders, and develop new citizenship initiatives. In 2000, for example, Ford Motor Company developed a set of CSR principles after hosting a forum with company executives and citizenship experts, followed by discussions with employees. As an outcome of these conversations, the firm converted one of its aging plants into a highly efficient, environmentally friendly facility. Data collection is another important component of this phase. Innovative organizations monitor their social and environmental activities and may report the results to the public. (We'll take a closer look at social audits in the next section of the chapter.) Creating coherence is the primary challenge for Stage 3 organizations. Managers typically work independently on citizenship initiatives, and these efforts are not tied to corporate strategy

and culture. While innovative organizations compile data, they don't make effective use of the information.

*Stage 4: Integrated.* In this stage, organizations take a more unified approach to citizenship than their counterparts in Stage 3. They try to incorporate citizenship concerns throughout every level and unit of the firm, making CSR part of the business plan. Leaders set citizenship goals, create performance indicators, and then monitor how well they do. They report the findings of all social and environmental audits, even when they are not favorable. Integrated organizations—Henkel, Interface, Groupe Diageo, Danone—often have committees made up of senior executives or board members to oversee these efforts. Deepening commitment is the primary challenge in Stage 4. Maintaining and strengthening commitment to citizenship is difficult when tackling significant problems like neighborhood blight and poverty.

*Stage 5: Transformative.* Companies like Tom's Shoes and Patagonia make citizenship central to their missions and reputations. Consumers buy their products in part because of their citizenship activities. Transformative organizations hope to create new markets by merging their social commitment with their business strategies. They are willing to lose money in the short term if there is the possibility of a significant social and economic payoff in the long term. Stage 5 organizations often have visionary leaders who, troubled by the world's problems, are out to make it a better place. Firms in the transformative stage often partner with nonprofits, other businesses, and community groups to address these problems. Hewlett-Packard demonstrates how organizations can simultaneously meet social and financial goals. HP worked with other groups and organizations in India, South Africa, and Brazil to provide communication technology infrastructure that enables underserved residents to access the Web. This effort not only improved the lives of poor citizens in these areas but also gave HP an advantage in these markets. The challenge for transformative companies is to learn how to develop alliances with other organizations and to balance stockholder interests with social concerns. (See Case Study 11.3 for a closer look at a new kind of corporation that addresses the tension between profit and social responsibility.)

While Center for Corporate Citizenship researchers emphasize that top leaders are critical to the development of organizational citizenship, they also cite examples where lower-level leaders and followers led the way. At AMD, Petro-Canada, and Agilant, mid-level managers from a variety of departments—community affairs, corporate communication, environmental management—joined together to convince senior management of the importance of citizenship and to form coordinating committees. Unilever's Asian food business employees encouraged the company to address nutritional needs in the region. As a result, the company launched a children's nutrition program and implemented the campaign in conjunction with UNICEF and Indian nonprofit groups.<sup>38</sup>

Corporate citizenship investigators use the term "catalytic approach" to describe leading citizenship from the middle or lower levels of the organization. In this non

programmed, organic strategy, employees take advantage of opportunities that arise, take small steps, and recognize that change can flow from many different sources. These experts suggest that if you want to be a corporate citizenship catalyst, recognize the importance of small wins or changes. Demonstrate the value of citizenship through modest success before moving on. Re-use structures already in place. For instance, add citizenship measures to existing performance evaluations and introduce citizenship into training programs. Be prepared to work over time to balance the needs of stakeholders, weigh benefits against costs and so on. Finally, be a “passionate practitioner.” A single person can make a difference through sustained commitment to citizenship.<sup>39</sup>

## PROMOTING ORGANIZATIONAL CITIZENSHIP

To move our organizations to a higher stage or level of citizenship development, two factors are critical: (1) taking on a stewardship mentality and (2) adopting strategies for measuring citizenship. We'll conclude this chapter by taking a closer look at each of these elements.

### Adopting a Stewardship Mind-Set

Organizational citizenship is founded in large part on a commitment to stewardship. Stewardship, as we noted in our discussion of servant leadership in Chapter 7, means acting on behalf of others. Stewards seek to serve the interests of the organization and followers rather than pursue selfish concerns. On an organizational level, stewardship theory operates on the premise that virtuous managers will meet the needs of internal and external groups and society as a whole.<sup>40</sup> By pursuing long-term organizational benefits or goals instead of short-term gain, stewards are better able to serve the needs of all stakeholders and the common good. They also keep in mind the interests of future generations by, for example, spending more on production now to reduce pollution.

Several characteristics set organizational stewards apart from their organizational colleagues. First, they are intrinsically motivated. They seek such intangible rewards as personal growth, affiliation, achievement, and self-actualization rather than tangible rewards like bonuses and company cars. Second, stewards identify themselves with the goals, mission, and vision of their organizations. They take credit for the group's success and shoulder the blame for its failure when it falls short. Third, stewards rely on personal power instead of on positional forms of power (see Chapter 5) to achieve their goals. Fourth, stewards demonstrate a high level of concern not only for the performance of the organization but also for employees, customers, and the disadvantaged.

*Covenantal relationships* are critical to organizational stewardship.<sup>41</sup> Unlike traditional transactional contracts, which are based on exchanges between parties (labor for money, money for products), covenantal relationships are based on the commitment of parties to each other and on loyalty to shared values. The relational partners realize that they may not benefit from every decision but remain committed to the relationship. Covenants are directly tied to social responsibility. Covenantal relationships between workers and employers are more likely to develop in organizations that invest in social welfare. Employees are

more likely to buy into the ideology of groups that promote community interests. Of course, establishing covenantal relationships can be difficult, particularly with those outside the organization. Nonetheless, if you place collective interests over selfish concerns, you are less tempted to engage in such ethical abuses as excessive executive compensation and lying to boost short-term profits. By acting as a steward, you are more likely to be a committed, productive organizational member who reaches out to help your colleagues and outsiders. You can promote stewardship in your organization as a whole through

- Sharing leadership responsibilities
- Building collaborative relationships
- Emphasizing shared values and a collective purpose
- Empowering workers
- Promoting a long-term orientation that benefits the next generation
- Helping members see their work as a calling
- Emphasizing collective interests
- Modeling other-focused behaviors
- Investing in employee development
- Promoting a sense of employee ownership<sup>42</sup>

To determine if your employer has made efforts to develop a covenantal relationship with its workers, complete Self-Assessment 11.2.

## SELF-ASSESSMENT 11.2

### Covenantal Relationship Questionnaire

#### Part 1. Organizational Relationship With Employees

Rate each of the following items on the following scale.

1 = Strongly disagree, 2 = Disagree, 3 = Neither agree nor disagree, 4 = Agree, 5 = Strongly agree

My superior gives personal attention to subordinates who seem neglected.

My superior delegates responsibilities to me to provide me with training opportunities.

My superior treats each subordinate as an individual.

My superior spends a lot of time coaching each individual subordinate who needs it.

My superior gives newcomers lots of help.

#### Part 2. Company Identification

Rate each of the following items:

I think [your organization's name] considers employees: 1 = much less important than sales and profits, 2 = less important than sales and profits, 3 = neither less nor more important than sales and profits, 4 = more important than sales and profits, 5 = much more important than sales and profits

How do you describe [your organization's name] as a company to work for? poor (1), just another place to work (2), fairly good (3), very good (4), couldn't be much better (5)

From my experience, I feel [your organization's name] probably treats its employees:

poorly (1), somewhat poorly (2), fairly well (3), quite well (4), extremely well (5)

### Scoring

Possible scores range from 8 to 40. The higher your score, the more you believe that you have a covenantal relationship with your employer. You can also compare your scores on both parts of the instrument to determine, for instance, if you have a strong sense of identification with your employer even though your superior doesn't make an effort to build a strong relationship with you and other workers.

*Source:* Van Dyne, Graham, and Dienesch (1994). Used by permission.

## Measuring Social Performance

When it comes to organizational citizenship, “you get what you measure.”<sup>43</sup> As we noted in Chapter 9, organizational members engage in those activities, in this case citizenship initiatives, that are measured and rewarded. The same is true of organizations as a whole. Companies recognized for their CSR activities or sustainability practices try to maintain those accolades. Survey results also reveal whether organizations are reaching their goals and lay the groundwork for improvement. This data is critical not only to members but to stakeholder groups like socially conscious customers and investors who use this information when making buying and investment choices.

Financial statements don't provide an accurate (total) picture of an organization's performance because they ignore the group's social impact and environmental performance. Proponents of CSR and sustainability argue that corporations need to be judged by a *triple bottom line*.<sup>44</sup> In addition to providing traditional financial data, companies should supply information on how well they are meeting their three social and environmental responsibilities: profit, people, and planet. The triple bottom line is measured in a variety of ways. A number of companies sponsor self-audits. Starbucks' annual “Global Responsibility Report” is one such example. This document addresses such topics as ethical sourcing, environmental impact, energy and water conservation, recycling, and community service. Self-audits are particularly prone to abuse, however. Firms may use them as public relations tools, limiting the analysis to just a few areas of strength or reporting only favorable findings. To be credible, such audits need to be complete and should be conducted and certified by an outside group, such as an accounting firm.

Standardized audits are gaining in popularity. Social Accountability 8000 is designed to measure labor practices at overseas suppliers. A firm must meet measurable, verifiable performance standards in nine areas to be certified. These standards forbid child labor, forced labor, coercion, discrimination, unlimited overtime, and substandard wages.<sup>45</sup> The

Global Reporting Initiative, which has been adopted by such organizations as Baxter International, Canon, Deutsche Bank, and Ford Motor Company, is another popular measure.<sup>46</sup> This instrument examines three sets of performance indicators. Economic indicators look at an organization's direct and indirect impacts on stakeholders and on local, national, and global economic systems. These include such elements as wages, pensions and benefits, payments to suppliers, taxes, and subsidies received. Environmental indicators reveal an organization's impacts on natural systems. They cover energy, material and water use, greenhouse gases and waste generation, hazardous materials, recycling, pollution, and fines and penalties for environmental violations. Social indicators concern an organization's influence on social systems and cluster around labor practices (diversity, health, and safety), human rights (child labor, for example), and other social issues (bribery and corruption, community relations).

Social or responsibility auditing has become a "mainstream business practice," according to accounting firm KPMG, which regularly surveys corporate social responsibility reporting.<sup>47</sup> Over 90% of the largest 250 firms it surveyed provide such information, with the highest reporting rates in the Asia Pacific region. Nonetheless, social measurement still is plagued with a number of problems.<sup>48</sup> Standardized social performance instruments aren't as universally accepted as financial audits. There are questions about who is qualified to conduct social audits, what they should cover, how data should be collected, who should have access to the results, and how to draw comparisons between organizations. Determining social and environmental impact is more difficult than determining profits and losses. According to KPMG, there is "room for improvement"; the average reporting quality score is only 57 out of 100. The accounting firm says that the best CR (corporate reporting) reporting practices include the following:

*Stakeholder engagement.* Identify stakeholders, how the company engages with stakeholders, and how the company has responded to their feedback.

*Materiality.* Demonstrate an ongoing process to identify the social/environmental issues that have the greatest potential impact on a firm and its stakeholders.

*Risk, opportunity, and strategy.* Include a careful assessment of the CSR risks and opportunities the business faces and what it is doing to respond to these factors.

*Targets and indicators.* Use measurable targets and indicators (and specify time frames) to measure progress and report on performance.

*Transparency and balance.* Provide information on challenges as well as achievements.

*Suppliers and the value chain.* Explain the social and environmental impacts of the firm's suppliers, products, and services.

*Corporate responsibility governance.* Spell out who is responsible for CR and how CR performance is linked to pay.

Outside groups often conduct their own audits of an organization's social performance. To make the *Forbes* list of the companies with the best CSR reputations, consumers must rate firms highly on such items as "\_\_\_\_\_ is a good corporate citizen—it supports good causes and protects the environment"; "\_\_\_\_\_ is a responsibly run company—it

behaves ethically and is open and transparent in its business dealings”; and “\_\_\_\_\_ is an appealing place to work—it treats its employees well.” (Google, Microsoft, and Walt Disney, took the top three spots in 2016.)<sup>49</sup>

Socially conscious mutual funds and other institutional investors rely on the Dow Jones Sustainability Index and other, similar indices when deciding whether or not companies meet their investment criteria. The Dow Jones Sustainability Index (DWSI) evaluates companies in various regions and industries according to such factors as corporate governance, climate change mitigation, labor practices, and risk management; evaluators reject firms that don’t operate in an ethical, responsible manner. Charities are also subject to external evaluation. Charity Navigator rates the performance of nonprofits based on these categories: (1) program expenses, (2) administration expenses, (3) fund-raising expenses, (4) fund-raising efficiency (the percentage of the budget spent on raising money), (5) primary revenue growth (the ability to sustain income over time), (6) program expenses growth (the ability to expand programs), (7) working capital (the ability to survive a short downturn in revenue), (8) accountability (willingness to explain actions to the public), and (9) transparency (willingness to share critical data with outsiders).<sup>50</sup>

Third-party evaluations, like self-audits, are far from perfect. Oil producer BP qualified for the DWSI before it caused the massive oil spill in the Gulf of Mexico. The firm was quickly removed from the index. Volkswagen dropped out of the *Forbes* top 10 most socially responsible companies after it was caught bypassing pollution controls on its diesel cars.

## CHAPTER TAKEAWAYS

- In today’s society, organizations are expected to act as citizens who promote the welfare of society.
- Your organization has a moral obligation to respond to groups affected by its policies and operations. Engage in stakeholder management by responding to five questions: (1) Who are our stakeholders? (2) What are our stakeholders’ stakes? (3) What opportunities and challenges do our stakeholders present? (4) What responsibilities does the firm have to its stakeholders? (5) What strategies or actions should management take to best handle stakeholder challenges and opportunities?
- Whenever possible, seek to create value for all stakeholders, engaging in dialogue with supporters and critics alike. Track the progress of moral issues that might impact your organization. Develop strategies for addressing those trends with highest probability and magnitude.
- Corporate social responsibility (CSR) describes a corporation’s efforts to better society. These activities can be classified (1) according to levels of responsibility (economic, legal, ethical, philanthropic), (2) according to areas of impact (human resources; community, cultural, societal, philanthropic; environmental protection, waste reduction, and sustainability; product, consumer, and service contributions and protections), and (3) according to important stakeholder groups.
- In corporate activism or corporate social advocacy, CEOs take positions on sociopolitical issues not related to their businesses. They do so in response to employee and societal pressure and personal moral conviction. However, firms

taking social stances run the risk of alienating some consumers and other stakeholder groups.

- Sustainability is doing business in a way that preserves the natural environment while creating long-lasting economic and social value. Sustainability is a standard that demands constant improvement, but sustainability efforts can reduce costs, build better relationships with stakeholders, enhance the corporate reputation, and foster employee engagement.
- Determining your organization's stage of citizenship development can help you identify challenges and set objectives. Elementary organizations, which are at the lowest stage of development, don't understand corporate citizenship. Engaged organizations adopt social responsibility policies. Innovative organizations develop creative ways to improve and measure social performance. Integrated organizations incorporate citizenship into every operation. Transformative companies

make citizenship central to their missions and reputations.

- Citizenship efforts can be spearheaded by front-line employees and middle managers as well as by top-level executives. To act as a catalyst for change, take small steps, repurpose existing structures to support citizenship, balance the needs of stakeholders, and demonstrate sustained commitment to citizenship over time.
- Organizational citizenship rests largely on a commitment to stewardship. As an employee or manager, seek to meet the interests of the organization, followers, and external groups rather than your own needs. Seek to build covenantal relationships based on mutual commitments and shared values.
- Focus attention on organizational citizenship by auditing social and environmental performance in addition to financial performance (the triple bottom line). You can create your own audit or use a standardized one.

## APPLICATION PROJECTS

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1. In a group, identify the important stakeholders of your college or university. What ethical responsibilities does your institution have to each group?
2. Identify the ethical issue that could pose the greatest challenge to your college or university or employer based on Self-Assessment 11.1. Share your conclusions in a small group. Then, together, generate a strategy for the issue that has the greatest likelihood and greatest magnitude for your organization.
3. Evaluate the sustainability efforts of your college or university. How well does your institution live up to the CERES Principles found in Ethical Checkpoint 11.1? Write up your findings.
4. Create a list of sustainability practices you can adopt as an individual both at work (or school) and at home.
5. As a class, debate the following propositions:
  - \*Business should stick to business.
  - \*The risks of taking positions on controversial political/social issues outweigh the benefits.
  - \*Consumer boycotts are a waste of time and effort.
  - \*Most companies who engage in CSR do so primarily to improve their public image.
6. Discuss your scores on Self-Assessment 11.2 with a partner. Why do you think you do or do not have a covenantal relationship with your employer or organization? How can you encourage your organization to adopt a stewardship mind-set?
7. Compare and contrast two corporate social audits reports available online. What do you

learn from examining these materials? Do they meet the standards set out in the chapter?

8. Create a case study based on an organization that you identify as a leading citizen. How is its citizenship reflected in its stakeholder focus, corporate social responsibility activities, and sustainability efforts? How does it report on its social and environmental activities? How is it rated by external agencies and why? As an alternate, select an organization and determine its stage of corporate citizenship development.
9. What can you do to help your organization become a better corporate citizen? Outline a strategy.

## CASE STUDY 11.1

### Why the Circus No Longer Comes to Town

For 146 years, the Ringling Brothers and Barnum & Bailey Circus traveled the United States by train, putting on shows featuring acrobats, trapeze artists, clowns, and exotic animals. In 2017, the circus held its last performances after a significant decline in attendance and revenue due to changing public tastes. Shorter attention spans also contributed to its demise. The final blow to the circus came from its decision to eliminate elephant acts. According to a press release from Feld Entertainment, the company that owned the circus, this move led to a “greater than could have been anticipated” decline in ticket sales.<sup>1</sup>

For decades the American Humane Society, PETA (People for the Ethical Treatment of Animals), and other animal rights groups tried to ban elephant acts in Ringling Brothers performances. Protesters regularly picketed the circus, and for 14 years animal rights groups fought Ringling Brothers in court. Activists claimed that elephant acts were cruel and pointed out that these highly intelligent animals were chained up much of their lives. In 2011, Feld Entertainment was fined \$270,000 for violations of the Animal Welfare Act. However, Feld Entertainment successfully fended off the lawsuits, winning a \$24 million judgment against the animal rights groups in 2014. Nonetheless, Ringling Brothers

agreed to retire all traveling elephants to its Center for Elephant Conservation in Florida that same year. (During this same period, Los Angeles, Oakland, and Asheville, North Carolina, restricted animal acts.)

Animal rights groups cheered the closing of the circus. According to PETA’s president, “PETA heralds the end of what has been the saddest show on earth for wild animals, and asks all other animal circuses to follow suit, as this is a sign of changing times.”<sup>2</sup> The CEO of the United States Humane Society said, “I applaud their decision to move away from an institution grounded on inherently inhumane wild animal acts.”<sup>3</sup> CEO Kenneth Feld acknowledged that the negative publicity generated by the lawsuits took its toll: “We prevailed in court 100% [but] obviously, in the court of public opinion we didn’t win.”<sup>4</sup>

Ringling Brothers/Feld Entertainment isn’t the only company that has had to deal with changing societal attitudes toward animals. For decades killer whales were the major attraction at SeaWorld parks in San Diego, Orlando, and San Antonio. However, the death of trainer Dawn Brancheau, who was dragged into the water and drowned by Sea World’s largest breeding male, Tilikum (“Tilly”), galvanized opposition to

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captive orca programs. The film *Blackfish* documented the death of Brancheau and whale mistreatment. Matt Damon, Harry Styles, Willie Nelson, and other celebrities joined the protest. Animal activists noted that orcas (which are really large dolphins) never kill humans in the wild. In captivity, young killer whales are separated from their families and are forced to live their lives in small steel or concrete enclosures with little stimulation. Captive orcas display a variety of unhealthy behaviors like banging against pool walls, biting on metal gates and attacking other whales.

SeaWorld vigorously fought attempts to ban its orca program, spending \$15 million on an advertising campaign that emphasized the company's conservation efforts while attacking the truthfulness of *Blackfish*, calling it "emotionally manipulative." Despite the campaign, SeaWorld lost half of its stock value and attendance dropped dramatically. Congressman Adam Schiff of California threatened to introduce legislation banning captive orca programs, and the California coastal commission refused to let SeaWorld double the size of its killer whale tanks unless it stopped breeding orcas.

In 2016, SeaWorld agreed to end its breeding program, though the killer whale shows continued. In 2017 it announced that it was discontinuing the theatrical orca programs in its San Diego park, which has seen the largest decline in attendance. SeaWorld CEO Joel Manby said the company listened to customers who no longer wanted to see whales perform at the commands of trainers, and would provide "an all new orca experience focused on the natural environment [of the whales]." He told investors that the company would change its focus from entertainment

to conservation, noting: "People love companies that have a purpose, even for-profit companies."<sup>5</sup>

Activists aren't done pushing for animal rights, which may mean additional changes in public attitudes that could threaten the business models of other organizations. Zoos, for example, are coming under increasing pressure to improve living conditions for their animals or shut down.

### Discussion Probes

1. Was the circus the "saddest show on earth" because of the way it treated its elephants and other animals?
2. Could the circus have been saved if Ringling Brothers had taken a different approach to its critics?
3. Do you agree with Sea World's decision to end its captive orca breeding program and theatrical orca performances? Why or why not?
4. Why was SeaWorld unable to resist the pressure to end its orca-breeding program?
5. Based on the issue maturity scale, what is the stage of development of the issue of animal rights?
6. Are zoos in danger? What steps should they take to respond to animal rights activists?

### Notes

1. Feld Entertainment (2017).
2. Hayden (2017).
3. Lang (2016).
4. Neuhaus (2017).
5. Neate (2015).

Sources: Fuggetta (2012). Karimi (2016). Solis (2017).

## CASE STUDY 11.2

### Facebook Takes on Fake News

In the run-up to the 2016 U.S. Presidential election, Facebook, Google, and Instagram were flooded with fake news stories. These bogus stories had such headlines as: “Hillary Clinton’s Discarded BlackBerry Turns Up in Goodwill Thrift Store”; “Yoko Ono: ‘I Had an Affair With Hillary Clinton in the ’70s’”; “Pope Francis Shocks World, Endorses Donald Trump for President”; and “Donald Trump Is a Member of the Illuminati.” These fake news items were widely circulated and believed. Researchers at BuzzFeed found that fake news stories generated more interest than legitimate news stories. Following the election, 75% of Americans who remembered a fake news headline believed that it was true. One North Carolina man drove to Washington, DC, to “self-investigate” online rumors of a pedophile ring being run out of a pizza restaurant by Hillary Clinton and other important Democrats. He walked into the restaurant—filled with employees and families—carrying an AR-15 assault rifle and a revolver and fired one shot into a door. Fake news isn’t limited to the United States, however. Hundreds of bogus stories were also posted during election campaigns in France and Germany.

Russia is behind many political fake news stories but profit, not politics, appears to be the motivation behind others. Researcher Craig Silverman of BuzzFeed found that there were a hundred false news websites located in the town of Veles in central Macedonia. During the 2016 election, writers (mainly young people) received a portion of the ad revenue generated through Google AdSense each time someone clicked on their sites. They would entice visitors through catchy headlines and domain names that closely resembled those of reputable news

outlets. Early in the campaign they discovered that pro-Trump material produced much greater interest than anti-Trump content. Often readers would first go to Facebook and then click on a link that connected to the false news story on Google. To encourage visits from Facebook, the Macedonians would create or buy fake accounts and then introduce their stories to pro-Trump Facebook groups. According to Silverman:

Facebook doesn’t really earn them [fake news creators] a lot of money but the key thing about Facebook—and this is true whether you’re running a politics site in Macedonia or whether you run a very large website in the US—Facebook is the biggest driver of traffic to news websites in the world now. 1.8 billion people log into Facebook every month.<sup>1</sup>

Both Facebook and Google are under pressure in the United States and Europe to reduce the spread of fake news on their sites. One group of Facebook shareholders proposed a resolution warning that the company could face government regulation and a loss of reputation (and users) because of fake news. They demanded a report on the company’s efforts to deal with the problem. Germany approved a plan to fine social media companies for as much as \$53 million if they didn’t quickly take down posts that break German law. Britain’s Parliament began an investigation of fake news. The chair of the committee launching the British probe claimed that the false news trend was “a threat to democracy and undermines

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confidence in the media in general.”<sup>2</sup> He went on to say that Parliament might make it illegal for tech companies not to act if they learn of false or inappropriate content. This would be a “massive incentive” for tech companies to “get their house in order.”<sup>3</sup> (In one embarrassing case of fake news, Google Home repeated a bogus story that British prime minister Theresa May is secretly a lizard.)

Facebook CEO Mark Zuckerberg first denied that his firm had any responsibility for influencing votes, saying, “Personally, I think the idea that fake news on Facebook—of which it’s a small amount of content—influenced the election in any way is a pretty crazy idea.”<sup>4</sup> Later he changed course, declaring that the company had “much more work to do” when it came to false news content. Facebook users can now click a box to indicate if they think a story is a hoax. If identified as false, it is tagged with an alert message indicating that it has been “disputed by 3rd party fact-checkers” (outside groups hired to check stories). Any flagged story will be banned from being promoted as an ad. The trending feature, which used to be based on how many people shared a single story, has been changed to indicate, instead, how many people are accessing related stories on the same topic. For its part, Google banned 200 publishers from its AdSense network. Company engineers are developing better algorithms for identifying fake news sources. A previous algorithm failed when Google featured a bogus story claiming Donald Trump won the popular vote. He did not, garnering 2.8 million fewer votes than Hillary Clinton.

So far efforts by Facebook and Google to combat fake news have failed to silence critics. The *New York Times* declared in its own catchy headline, “In Race Against Fake News, Google and Facebook Stroll to the Starting Line.”<sup>5</sup> *Times* technology writers consider Facebook’s efforts to be small experiments and note that Google’s publisher bans “were a drop in the bucket” when

compared with the nearly two million publishers who use the AdSense program. One supporter of the fake news resolution at Facebook cautioned that the company could interfere with free speech and engage in censorship. Altering the algorithm might introduce “systematic bias.” Conservatives who view Facebook as a liberal organization worry that the company will suppress other points of view.

### Discussion Probes

1. Do you think that fake news had a significant impact on the 2016 U.S. presidential election?
2. Why do you think fake news is so believable? How can you tell if a news story item is bogus?
3. Do you agree that fake news poses “a threat to democracy?” Why or why not?
4. What responsibility do Internet platforms have for the content that appears on their sites?
5. Have Facebook and Google done enough to curb fake news? What additional steps could they take?
6. Is it fair for governments to fine Google and Facebook for not doing more to stop fake news content?
7. Do you worry that Facebook and Google will engage in censorship? How can the companies ensure that some perspectives aren’t unfairly suppressed?

### Notes

1. “Fake News Expert” (2016). NPR.
2. Lake and Flynn (2017).
3. Ibid.
4. Kottasova (2017).
5. Wakabayashi and Isaac (2017).

Sources: Slotkin (2017). Sterne (2017).

## CASE STUDY 11.3

### The Public Benefit Corporation and Profit-With-Purpose Businesses

Corporate officers, as we saw in Chapter 10, serve the financial interests of stockholders. This fiduciary duty can come into conflict with other goals, like helping to improve the local school system or restoring the environment. Shareholders may argue that companies should focus less on corporate responsibility and more on the bottom line. For example, Costco, which pays its employees well and provides them with health insurance, is under constant pressure from Wall Street to pay workers less in order to increase profits and raise the stock price.

In recognition of the fact that many companies have other goals besides profit, 30 states have passed laws creating a new category of corporation called the public benefit corporation. Public benefit corporations (BCs) are for-profit entities that “create a material positive impact on society and the environment.”<sup>1</sup> Their social purposes are written into their corporate charters, which enables them to pursue social as well as financial objectives. To maintain their standing, BCs must file yearly reports on how well they are reaching their social or environmental goals according to a third-party standard, and their directors must consider interests beyond shareholder profit.

Alter Eco, Plum Organics, Method, Kickstarter, and New Leaf Paper are some of the firms that have registered as public benefit corporations. Yves Chouinard, founder of the Patagonia outdoor clothing company, was the first corporate leader to file under California’s public benefit corporation law. Patagonia is known for its strong environmental emphasis, giving 1% of sales to environmental causes, manufacturing recyclable clothing, funding a national park in Chile, and encouraging

consumers to purchase their products only if they really need to do so. Chouinard registered the company as a BC because he feared that when he died, his successors might set aside the sustainability values and practices of the company in favor of higher financial returns.

Benefit corporations aren’t for everyone. The vast majority of companies will continue to focus on the bottom line and investors will continue to demand high returns. (Delaware law requires that existing publicly held corporations receive 90% stockholder approval before changing to BC status.) And there are concerns about how well this new model will work. The statutes provide little guidance to directors to help them determine how to balance the needs of shareholders against the needs of other stakeholders. Some worry that managers will use the BC designation as cover for poor business decisions. Other observers are leery of the annual reporting requirement, arguing that measuring social progress is much more complex than tracking financial objectives. It may take years to demonstrate progress on social goals, and there is no “one size fits all” standard that applies to all types of public benefits. Then, too, it is not clear what happens to companies that fail to meet their social objectives in a given year.

Interest in social enterprises extends well beyond the United States. Other countries in the Group of 7 (which includes Canada, United Kingdom, France, Germany, Italy, and Japan) use the term “profit-with-purpose businesses” (PPBs) to describe companies that seek both profits and social benefits. Like benefit corporations, PPBs have to pursue the common good, keep the social purpose of their organizations in mind when making decisions, and report on their progress toward meeting their social objectives. The

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Canadian province of British Columbia passed legislation setting up structures for PPBs. France and the UK provide tax benefits for such companies and those who invest in them.

Since benefit corporations and profit-with-purpose businesses are recent developments, it remains to be seen how effective they will be in attracting investment and fulfilling their stated purposes. Nevertheless, proponents are optimistic, saying that BCs and PPBs are the latest developments in corporate social responsibility and should be attractive to the millennial generation, many of whom are social entrepreneurs who start businesses to meet social needs like housing the homeless and training unskilled workers.

### Discussion Probes

1. What advantages or disadvantages do you see in public benefit corporations and profit-with-purpose businesses?

*Sources:* R. Burke and Bragg (2014). B. Cummings (2012). K. Gilbert (2013). Herdt (2012). Hiller (2013). Loewenstein (2013). Markell (2013). Orrick, Herrington & Sutcliffe LLP (2016). E. A. Peterson and Patel (2016). Social Impact Investment Taskforce (2014). Solnik (2012). Thorelli (2017). M. Wright (2011). S. B. Young (2014).

2. Would you be more likely to purchase goods and services from public benefit corporations and PPBs than traditional corporations? Why or why not?
3. Would you invest in a public benefit corporation or profit-with-purpose business even if it meant that you would earn significantly less? Would you invest in a mutual fund that held only socially responsible companies?
4. Are there certain companies or types of businesses you would never invest in? Why?
5. Do you think that annual reports will be enough to guarantee that benefit corporations fulfill their objective to create a “positive material impact on society and the environment?”

### Note

1. H. Martin (2012).