1.8: Social Responsibility and Ethics

Social Responsibility

Social Responsibility refers to the concept that businesses should be actively concerned with the welfare of society. Examples may include establishing scholarship funds, contributing to the arts, or "matching" employee's contributions to charities.

Ethics

Ethics refers to standards of conduct or moral behavior. Examples may include exceeding minimum safety requirements for employees, abiding by (or exceeding) regulations regarding environmental issues, honoring not just the letter, but the spirit of contracts or verbal agreements with customers and suppliers.

Social Responsibility and Ethics are NOT inconsistent with the maximization of firm value. While there is a cost to engaging in ethical and socially responsible behavior, there are often benefits in goodwill and public relations that may more than offset those costs. There is substantial evidence that engaging in Social Responsibility and Ethics is highly consistent with maximizing shareholder wealth. A study by Margolis, et al (2009), reviewed 251 other studies examining social responsibility and firm performance. They find a consistent pattern that social responsibility is correlated with firm performance. Specifically, the overall mean correlation is 0.13 (indicating a small, positive relationship). In addition, 28% of the studies reveal a statistically significant, positive relationship, 59% reveal no relationship, and only 2% suggest a statistically, negative relationship (with about 10% not reporting a sample size to make statistical significance impossible to measure). This implies that the overwhelming evidence suggests that corporations behaving in a manner consistent with social responsibility and ethical behavior are likely to either benefit financially or not experience any noticeable financial downside to doing so. In other words, companies that do the right thing will either generate additional financial rewards to shareholders or, at the worst, not cost their shareholders.

However, we must remember that while social responsibility is consistent with our primary goal (maximizing shareholder wealth) it is not the primary goal in and of itself. While it seems wrong to say that a corporation can spend too much money on trying to improve the welfare of society, keep in mind that the owners of the corporation are the stockholders. When a corporation writes a large check to a charitable organization, essentially the managers of the corporation are deciding where and how to spend the stockholders' money. It would be fairer to let those stockholders decide how to allocate their money.

For an example of some firms that rate high in social responsibility and ethics, take a look at Business Ethics List of 100 Best Corporate Citizens.