

# Socially Responsible Business & Philanthropy

## SECTION 5.2

### OBJECTIVES

- Define corporate social responsibility
- Explain entrepreneurs' responsibilities to individuals
- Describe entrepreneurs' environmental responsibilities
- Identify entrepreneurs' community responsibilities



Think carefully about this question:

What three things would make the world a better place?

Write your answers on a piece of paper. Be prepared to discuss your list in class.

### Corporate Social Responsibility

Barny Haughton is owner and executive chef at the upscale Bordeaux Quay Restaurant in Bristol, England. Katie Vandenberg owns Eli's Coffee Shop in the small town of Morton, Illinois. What do these two people, in very different circumstances and half a world apart, have in common?

They both are entrepreneurs. And they both demonstrate **corporate social responsibility**—their respective businesses act in ways that balance profit and growth with the good of society. Corporate social responsibility is based on the concept that the relationship between business and society ought to go deeper than economics. Barny designed Bordeaux Quay as a model of resource conservation, from its recycling program to its low-flush toilets (which are refilled by captured rainwater). At Eli's Coffee Shop, Katie serves only ethically sourced coffee. **Ethical sourcing** means buying from suppliers who provide safe working conditions and respect workers' rights.

The examples of Barny Haughton and Katie Vandenberg demonstrate that corporate social responsibility is an opportunity for entrepreneurs at every level. What's more, it's not just an afterthought, separate from daily operations. Increasingly, behaving in

### VOCABULARY

- carbon footprint
- carbon offset
- cause-related marketing
- corporate social responsibility
- ethical sourcing
- facilitated giving
- greenwashing
- in-kind donation
- philanthropy
- purchase-triggered donation
- sponsorship
- sustainable

a way that is socially responsible is part of how a company does business. In some cases, it *is* a company's business.

Corporate social responsibility also makes good business sense. Whether it's a large corporation sponsoring a charity telethon or a local supermarket offering a refund for using canvas shopping bags, corporate social responsibility often translates into profits. This advantage for business is sometimes described as "doing well by doing good."

**Corporate Social  
Responsibility = Doing Well by  
Doing Good**

**READING  
CHECKPOINT**

*What is corporate social responsibility?*

## Responsibility to Individuals

Corporate social responsibility builds from the ground up. It can affect all the individuals who are connected in some way to the business: the employees, customers, investors, and creditors.

In a way, your first responsibility to all these individuals, as well as to yourself, is to run the business to the best of your abilities. All of these people rely on your company for something. Your employees count on you for their incomes. Your customers trust you to supply a quality product or service. Your investors and creditors have trusted your business judgment and rely on you to fulfill your financial obligations. Treating a business seriously and making well-thought-out decisions shows that you take your responsibilities to heart.

### Employees

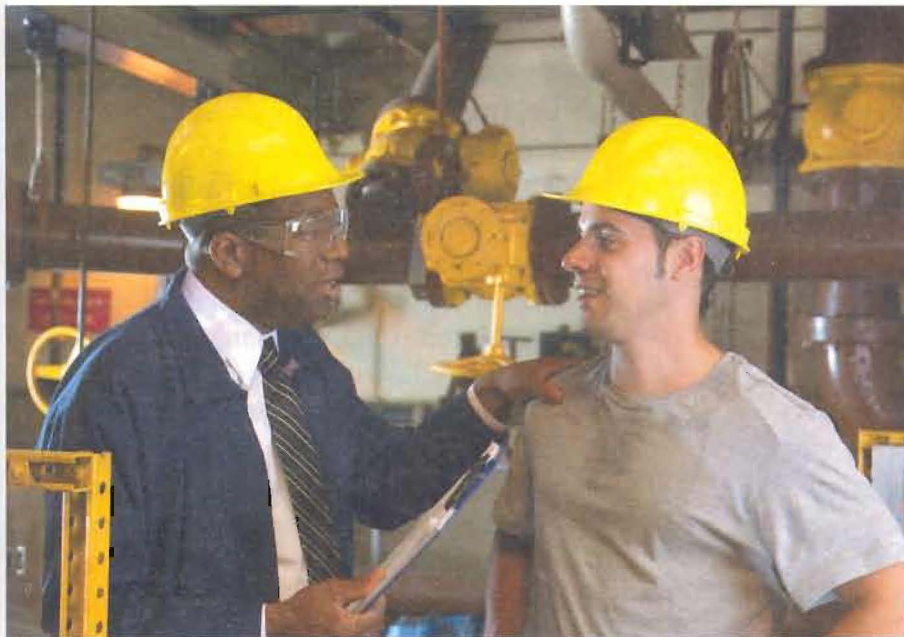
Entrepreneurs have legal obligations to provide a safe workplace and fair employment policies. (You'll read more about these in Chapters 15 and 17.) If you've ever held a job yourself, however, you know that these conditions are only part of what employees need and want.

On a practical level, employees need the tools to do the jobs expected of them. Imagine the director of a preschool asking a teacher's aide to lead a class in an art activity without supplying the paper, crayons, paints, glue, or other necessary materials. Or suppose the director of the preschool asked the aide to plan a menu for a child with diabetes, without knowing whether the aide had any knowledge of nutrition or special diets. The results could be frustrating and even dangerous.

On the other hand, employees also need trust. They need respect for their skills and the freedom to use them. Trust may come easily when you have only a few employees and work with them closely. The test comes in giving them responsibilities without supervision. Yet that's a necessary step if a business is to grow.

Some employers are cautious about trusting workers, especially with jobs that encourage them to learn new skills. They don't want employees to outgrow the job and move on to another, possibly opening a competing business. In contrast, other entrepreneurs feel a responsibility for helping employees grow personally and professionally. They might practice job rotation, for instance, training workers for different jobs in the company. These business owners value employees' personal satisfaction—and enjoy the advantage of having a back-up to fill a position in an emergency.

Employees also deserve consideration for personal needs. If you're needed at home to care for a sick child, or if your car is in the shop, or if the bus was late, you can appreciate an understanding and considerate boss. Employers must recognize that an employee may have a spouse, children, and day-to-day responsibilities. Employers must respect and understand their employees' needs to meet these commitments. In fact, companies that are rated by employees as the best places to work usually help employees balance work and personal needs.



◀ **Figure 5-5**

### **Employers Value Employees**

Employees would rather work for an employer who trusts and respects them.

**Applying Concepts.** *If you were an employer, how would you show that you respected and trusted your employees?*

## **Customers**

As with employees, business owners are bound by law to treat customers fairly. A wise entrepreneur, however, understands that the ethical obligation goes beyond these legal minimums. As a practical consideration, attracting new customers also costs more than maintaining existing ones. The following four qualities, which cost nothing to put into practice, mark a responsible relationship with customers:

- **Honesty.** Be honest and transparent in all areas. Inform customers about your products, both the advantages and drawbacks. If you offer a service, describe your qualifications and abilities accurately. Carefully estimate the time and cost of completing a project. Admit to mistakes without offering excuses.

- **Respect.** Customers come to you hoping you can meet their needs or solve their problems. Their needs and problems are important to them, and they should be to you, as well. Take customer complaints seriously. These are opportunities to improve your business. Research suggests that only one of every fifty dissatisfied customers complains to the merchant. When you fix a situation that made one customer unhappy, you may be saving 49 other customers from the same frustration—and keeping them as customers.
- **Accessibility.** Be available when you promise to be. Keep to the business hours you advertise. Honor your appointments with clients and don't be late. Give customers contact information where they can reach you with questions. Take the initiative on keeping them updated about the status of an order or work in progress.
- **Attention.** Whether you're selling a single light bulb to a walk-in customer or installing solar panels on a university library, focus your attention on the customer with whom you are working at the moment. Be present for that customer. Don't be distracted by your cell phone or other obligations.

▼ **Figure 5-6**

### Supplier

Acting responsibly toward suppliers or vendors carries its own reward.

**Applying Concepts.** *How can suppliers and vendors help a business owner?*



### Suppliers

Acting responsibly toward suppliers or vendors carries its own reward. The people who sell the materials your business needs are also those who can advise you on making the best choices and using the materials wisely.

It should go without saying that you owe suppliers timely payment in the amount and method on which you agreed. You also need to respect their decisions on pricing. Although it is acceptable to attempt to negotiate with suppliers, you have the option of going elsewhere if you're not satisfied. Complaining or suggesting that the supplier is being unfair or dishonest is not appropriate.

If you mislead suppliers into thinking you might do business with them when you are really using them as "bargaining chips" to get another supplier to lower a price, you are not bargaining in good faith.

Suppliers appreciate cooperation in making a transaction as efficient as possible. Have a clear idea of what you want so you can help the supplier sell it to you. Have realistic expectations for the supplier's policies when it affects your satisfaction as

a customer. For example, if you order a product, expect a reasonable amount of added time and money for shipping and handling.

Suppliers deserve to hear that you're a satisfied customer—or that you are not. They benefit from knowing when a product or service could be improved. Give a supplier the chance to keep you as a customer before you switch to another. Staying with the same suppliers builds helpful relationships that will serve you well over time.

### Investors and Creditors

Investors and creditors provide the money to start and run a business and, along with it, an emotional boost. After all, people don't invest or loan money unless they believe in both the idea behind the business and the entrepreneur whose work will make it a success. Likewise, vendors who extend credit are showing faith that you'll be able to pay for your purchase.

Investors are not *guaranteed* a financial return, but they have a right to regular, and timely, communication. Understandably, they will want to know the status of their investments. Investors with experience in your field of business may be equally ready to offer advice and help. They might put you in touch with other contacts or suggest other resources. Often investors actually assume some control of the business in exchange for their financial support. (You'll read more about different types of investors in Chapter 13.)

Whatever the relationship, you need to give an investor's input the weight it deserves. A friend with little understanding of your business (but a lot of faith in you) who has made a modest investment and the professional investor who has bankrolled half of your business have both contributed to your potential success. Both deserve respect.

Unlike investors, creditors are owed a return on their money, usually with interest. They too need ongoing updates, especially if the business is struggling. Again, this is to your benefit. Creditors are as eager to be paid back as you are to get out of debt. If they see that you're working hard but still having trouble, they're sometimes willing to rework the terms to make repayment more manageable.

Communication with investors and creditors alike must be based on honesty and transparency. Taking money based on false expectations may be illegal and, in any case, can hurt you and your business.



*What four qualities mark a responsible relationship with customers?*

## Responsibility to the Environment

To an environmentalist, “green” means protecting natural resources. To an entrepreneur, “green” refers to another resource: money. Increasingly, these two meanings go hand-in-hand. Being environmentally green can be profitable. Surveys and sales figures show that consumers look favorably on businesses that show a commitment to protecting the environment. This, in turn, makes investors more willing to finance those businesses.

Some businesses try to appear environmentally responsible by overstating their commitment; this is called **greenwashing**. Such businesses take small steps, more for appearance than for impact, or advertise a practice that's required by law anyway. For example, a lawn and garden shop may claim, "All our pesticides meet federal guidelines for environmental protection." In reality, it would be illegal to sell products that did *not* meet these standards. Greenwashing is unethical at the very least and can hurt a business's reputation.

**READING CHECKPOINT**

List five things a business can do to lower its expenses while helping the environment.

## Responsibility to the Community

Businesses are increasingly supporting the cause of disadvantaged and needy people. Sometimes financial gain is the motive. Sometimes they do it through outright gifts or by making donations to nonprofit groups chartered to help those in need.

### Cause-Related Marketing

**Cause-related marketing** is a partnership between a business and a nonprofit group for the benefit of both. At its best, cause-related marketing accomplishes two goals: it increases sales for the business and raises money and awareness for the nonprofit group.

One form of cause-related marketing that you're probably familiar with is **sponsorship**, in which a business sponsors a community event or service in exchange for advertising. For example, a travel agency might want to sponsor the local Little League baseball team. The agency's financial support makes participating in Little League affordable for more children. In exchange, the business's name and logo appear on the ball-field fences and the back of team shirts. The team's Website has a link to the



◀ **Figure 5-8**

#### **Sponsorship**

Many local companies sponsor Little League teams.

**Applying Concepts.** How does this type of sponsorship help a business?

travel agency. The travel agency contributes to the community's quality of life while advertising to the community. The community and the business both benefit.

Other types of cause-related marketing are becoming popular. One is **facilitated giving**, in which a business makes it easier for customers to contribute to a cause. For example, a store might have canisters in checkout lanes for customers to drop in their change for a local charity. Another might sell packaged food baskets to be donated to food banks around the holidays. In a **purchase-triggered donation**, for every purchase of a particular item the business contributes an amount of money or a percentage of the purchase price. Restaurant owners used this technique to raise \$12 million for victims of Hurricane Katrina. Some 17,000 restaurants took part in the one-day campaign, called Dine for America, donating the proceeds to the American Red Cross.

Cause-related marketing requires careful planning. The cause should be popular and the nonprofit group well known. Often a business partners with a nonprofit group to which the business (or the business owner) has a special connection. For example, Wendy's hamburger-restaurant chain had a cause-related marketing program that encouraged the adoption of foster children. The cause was undeniably a worthy one, but the fact that Dave Thomas, the founder of Wendy's, was himself an adopted child demonstrated the business's special connection to this cause.

### Philanthropy

The energy and initiative that makes entrepreneurs leaders in business can also make them leaders in **philanthropy** when they donate money and other resources for socially beneficial causes. Although philanthropy is often associated with large corporations, owners of much smaller businesses are often actively involved in giving back to their communities. In fact, many local service groups couldn't survive without the contributions of local entrepreneurs and small businesses.

Ideally, philanthropy is "a help up, not a handout." That is, its aim is to give people the resources they need to improve their lives on their own, and to build something for future generations. This has been the philosophy of the most notable philanthropists, both past and present.

Money is the chief way of being philanthropic. Besides writing a check to support a nonprofit group's immediate needs, entrepreneurs can invest by creating or contributing to an endowment fund. The nonprofit group uses the income from the endowment for ongoing needs or for a specific project. Other business owners have established matching gift programs in which they match contributions made by employees or clients.

Some businesses find themselves in a position to donate property. A restaurant that's changing its decor could give its curtains, wall hangings, or dinnerware to a social service agency that helps clients transition from homelessness. A business that's switching to a new computer network might have old hardware and software that would

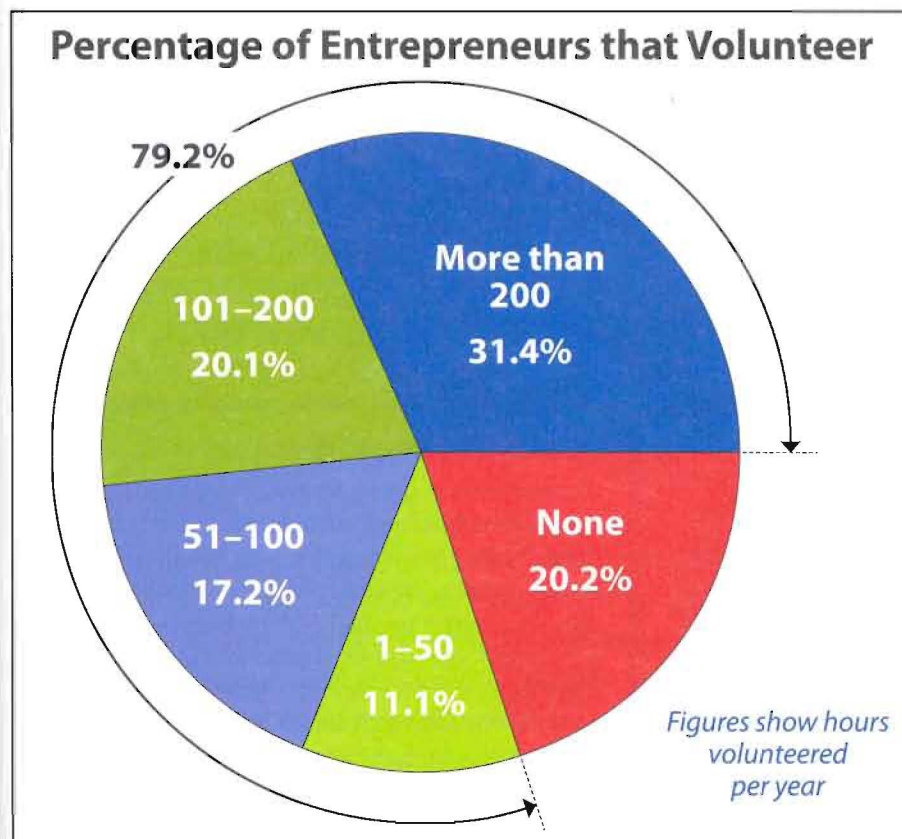
be an upgrade for a nonprofit group. Charitable organizations need donations of products and services to make silent auctions a success, as well as snacks for volunteers who work at nonprofit-sponsored events.

A gift of a good or service is called an **in-kind donation**. Both monetary gifts and in-kind donations can be declared on an entrepreneur's income tax statement and may help lower his or her tax liability. Gifts that are used to help people in a particularly disadvantaged area are sometimes eligible for additional tax breaks.

A business's workforce can be an asset to a service group, as well. Volunteers from a local business who help with a community project are making a visible statement about that business's commitment. This sort of volunteering also helps the business. Experts on workplace relations recognize volunteer projects as an effective, low-cost way to foster unity and teamwork among employees.

Entrepreneurial skills translate well for volunteering efforts. For example, the organizational skill involved in scheduling employees is easily applied to scheduling volunteers. Because they are comfortable being in charge, many business owners serve on a nonprofit group's board of directors or help with management. This gives them more say in how their donations are spent and provides the nonprofit with capable leadership.

Other entrepreneurs have special talents related to their respective businesses. A photographer who takes wedding and family photos for a living can use those skills to lay out an attractive fundraising brochure.



◀ **Figure 5-9**  
**Percentage of Entrepreneurs that Volunteer**

Of the entrepreneurs surveyed, almost 80 percent said they and their families did volunteer work. This chart breaks down that figure by the number of hours volunteered annually.

**Analyzing Data.** In which hour range did the largest percentage of entrepreneurs and their families fall? How do you explain this finding?



This type of hands-on philanthropy takes time. Although time is a scarce resource for many entrepreneurs, they often see spending time on the community as a wise investment. Giving back to the community is a chance to build professional and personal relationships. Staying involved lets them know what people in their area need, which can help them make business decisions. Also, working in new situations can restore creativity and teach useful skills for the entrepreneur to use in business.

On the other hand, volunteering can be a mental and physical break from business, from the pressure to succeed and make a profit. *Philanthropy* comes from two Greek words that translate as “one who loves humankind.” For many entrepreneurs, that definition sums up their reasons for giving.



What is cause-related marketing?



**Your Business Plan.** Continue developing your standard business plan. Go to “Section 5.2” of the *Business Plan Project* in your *Student Activity Workbook*, or “Section 5.2” of the BizTech Software.

## ASSESSMENT 5.2

### Reviewing Objectives

1. Explain how the phrase “doing well by doing good” relates to social responsibility for entrepreneurs.
2. What four qualities indicate that a business has a responsible relationship with customers?
3. List five ways a business can lower its expenses and help the environment.
4. What is philanthropy?

### Critical Thinking

5. **Problem Solving.** Meredith owns an orchard. She is alarmed by the mysterious loss of honeybees that pollinate her fruit trees. She wants to use facilitated giving to support a nonprofit group investigating the situation. However, she’s worried that very few people have heard of the problem so she won’t be successful raising money. What should she do?
6. **Communication.** Entrepreneurs whose business is directly related to environmental responsibility are sometimes called “ecopre-

neurs.” How could being labeled an ecopreneur be helpful to a business? How could it be limiting?

### Working Together

Work in groups of three or four. Have each member assume the role of an entrepreneur for a specific business. Then choose a cause that all members can support. Assign each member to use one form of cause-related marketing or philanthropy to raise money or awareness for the cause. Present your plans to the class.

### Science

#### Green Technologies

Investigate one green technology or product of green technology, such as starch-based plastics, pest management, or a renewable energy source. What opportunities for entrepreneurs might the technology hold—in its production and use or in products and services that might be developed from it? Write up your findings. Include your judgment on whether this technology would be a promising one for entrepreneurs, and if so, why.