business in society
The insights in this e-book are culled from the University of Virginia Darden School of Business’ thought leadership website, Ideas to Action. For more insights from Darden faculty, please visit ideas.darden.virginia.edu.
IS PROFIT THE PURPOSE OF BUSINESS?
You may think that business is all about profit, business people are unethical and business in general is a black art of guile and greed. Over the years I have found this to be mostly untrue.

The story that business people are bad and what they do is morally questionable is false. For every Enron, there are 10,000 good companies. And most companies, like most people, are trying to do the right thing.

Business can solve the world’s problems. And more people are coming to believe that. Having observed business for more than three decades, I can tell things are changing. Thousands of new businesses are working to make the world a better place and, most importantly, add real value to our daily lives.

We need to recast the very way we think about business, especially in the aftermath of the global financial crisis, in which the old model of business — profit maximization — contributed to the meltdown.

Stakeholder Theory argues that stakeholders come first — whether they’re suppliers, investors, employees, customers or the community.

The old way of thinking about business presupposes the point of business is to make profits. This is akin to believing that breathing is the purpose of life. Yes, you have to breathe to live, just as businesses must make profits. But the purpose of business is usually determined by a passionate entrepreneur chasing a dream to change the world.

John Mackey, co-CEO of Whole Foods Market, is an example of the new order of those great business leaders who practice conscious capitalism. Mackey says that entrepreneurs — though they want to make money — start businesses out of passion. Think about it this way.
way, he said: Physicians make money, but their mission is to heal; teachers make money, but their desire is to educate; and architects make money, but they yearn to build. The question then is: Why the myth that business people only want to make money?

The Motley Fool’s main mission, says its CEO Tom Gardner, is to help people become better investors. Kip Tindell, CEO of The Container Store, explains that taking good care of its 6,000 employees leads those employees to take very good care of customers and other stakeholders. The result is profit.
Putting Purpose Back Into Capitalism

Capitalism has always had its share of critics, who claim it leaves scandal, pollution and poverty in its wake. Capitalism may not be perfect, but it is the greatest system of social cooperation created thus far. Capitalism works because entrepreneurs and managers figure out how customers, employees, suppliers, communities and people with the money all can cooperate to mutual benefit. Competition is important, but it is a second-order property that gives people more choice in a free society.

Business is a deeply human institution, but its purpose is not to make as much money as possible. The purpose is something else. We need to put purpose back into capitalism because business is primarily about purpose and creating value for stakeholders — money and profits follow.

Business and ethics go hand in hand. Sometimes we act for selfish reasons and sometimes for other-regarding interests. Incentives are important, but so are values. Most people tell the truth and keep their promises and act responsibly most of the time. And we need to encourage that behavior. When these expectations are not met, it is not just bad ethics, it is also bad business.

Critique by creating something better. If you think that too many executives just concentrate on profits and money, then start a business that focuses on a purpose more than profits and relies on the passion of its employees.
WHAT MAKES A CHAMPION BRAND?
10 CHAMPION BRAND SURVEY INSIGHTS EVERY BUSINESS LEADER NEEDS TO KNOW
To many, the term “Champion Brand” may evoke thoughts of company name recognition, top-rated products, memorable packaging and clever marketing strategies or carefully crafted PR campaigns. When we think of brands, we may think about the consistency in a company’s messaging.

But in a global study of public and private companies, the Darden School and APCO Worldwide discovered just how much louder actions speak than words. The traditional strategies of branding and marketing are no longer what keep stakeholders engaged and committed to a brand over time. Corporate behavior — an organization’s actions, practices and policies — has far greater impact. Globally admired brands focus less on products and more on practices: It is how a company acts that will boost its chances of earning the label of Champion Brand. These companies walk their talk.

While this may sound simple, it has become harder to do. In recent years, the business climate has dramatically changed. Global companies speak to broader and more diverse audiences. The complex global landscape — a world which now includes a 24-7, back-and-forth dialogue with savvy and well-informed customers, employees and community members — is changing how leading companies act and communicate.

To learn about the impact of these trends on business leaders, Darden and APCO conducted an in-depth study throughout 14 global markets. Of the 36,551 respondents who were surveyed, over 7,800 of the more engaged stakeholders were further sampled. In the second part
of the survey, those individuals also answered questions about nearly 500 private and public companies around the world.

From this data, 10 key insights emerged that every business leader should know. These insights fall into two main categories: the changing role of business in society and the evolving audience landscape.

**People acknowledge the growing impact and potential of business to play a greater role in society.**

**1. How a company operates in society is just as important as its products and services.**

Many may be surprised to learn that 68 percent of the survey’s respondents said that when evaluating companies, it is as important for them to know how the organization operates as it is to know what it sells. This suggests that businesses should rank their corporate practices as equally important as their products, if they want to convert their stakeholders from active onlookers to raving fans.

**2. Companies have a bigger impact on society today than 10 years ago.**

It has long been known that a company’s products and services can greatly impact individual lives (think life-saving prescriptions and exercise equipment, for example), but now, people believe that businesses can influence broader, social issues such as the environment and human rights through their policies and actions (think “green” packaging and corporate policies that prohibit the use of child labor). In fact, 77 percent of those surveyed agree that global corporations have a bigger impact on people’s lives today than they did just 10 years ago.
3. The standards for good corporate conduct are rising.

Seventy-three percent believe that people scrutinize what companies do more today than they did 10 years ago. Stakeholders are watching, and responding, based on corporate conduct: 74 percent have also taken some form of action, including boycotting a company’s products, contacting a government official or spreading the word about an organization, based on its corporate behavior.

4. Engaging in social issues is an opportunity to build stronger relationships with stakeholders.

An overwhelming majority of those interviewed, 94 percent, said that companies have the ability to shape a better society. That’s great news for business. But corporations would be wise to remember the old adage that with great power comes great responsibility: Stakeholders want their companies to exceed the “do no harm” rule (à la not decimating forests or contributing to pollution or disease), and actively champion social issues that they care about.

5. Business is increasingly involved in social issues.

The Champion Brand survey data showed that business can be an important conduit to social change, and people now expect corporations to answer the call. With 60 percent of respondents agreeing that companies now serve some functions in society that were previously reserved only for the government, business is no longer viewed as a passive bystander to social change, but as an important player that has a responsibility to help make it happen.
The audience is changing: More stakeholders are engaged across multiple interests and channels.

6. There is a core group of engaged stakeholders who are looking at companies from a 360-degree perspective.

In studying the survey respondents more closely, we discovered a rather unexpected phenomenon: the emergence of the “stakebroker.” According to Dr. Karen Buerkle, managing director of APCO Insight, the opinion research consultancy of APCO Worldwide, “Stakebrokers are not your traditional opinion leaders or influencers who read the news and talk to people about their opinions; they are a highly engaged group that looks at companies from a 360-degree perspective. What makes this audience unique is not just that they are more informed and active, but that they engage with companies from the perspective of ALL of the traditional audiences and their respective interests simultaneously (consumers, community members, environmentalists, policy influencers, employees and investors).”
7. Stakebrokers’ interactions with companies are much more sensitive to issues than the general public.

Business leaders may want to heed another key insight revealed in the Champion Brand study: 73 percent of the stakebrokers surveyed did not buy a product specifically because they didn’t agree with the company’s practices, compared to 35 percent of the general population. Although stakebrokers represent a smaller percentage of consumers, their activism across multiple channels and their power as influencers make them a formidable force in the global market.

8. Stakebroker activism is highest in “emerging” economies.

From this worldwide study across 14 global economies, we had the ability to make observations not only about people’s behaviors and actions, but also how those behaviors and actions may have differed across different countries. Interestingly, the number of stakebrokers who took some sort of action toward a company were highest in India (90 percent), China (87 percent), and Brazil (82 percent). The data indicates that there is a higher proportion of stakebrokers in these emerging economies than in more developed markets.
9. Stakebrokers want to be a part of something bigger.

What else does it take to become a globally admired brand among stakebrokers? Sixty-two percent agree that the best companies are those that advocate for things that matter to them. As Brad Staples, CEO of APCO Worldwide, observed: “Today’s companies are realizing that successful, great brands must go beyond building trust with their stakeholders and actively champion for their stakeholders interests. Only if they do this will those stakeholders champion these brands. Once companies ingrain this into their DNA, they can grow to earn their place as true leaders in their industries and society.”

10. Stakebrokers are younger and on the rise.

To maximize the full potential of the Champion Brand strategy, think young and think global. APCO’s survey data showed that stakebrokers are more likely to be younger (Generation X and Y). Add to that the demographic changes underway in emerging economies and it’s not hard to see that the trend of engaged stakebrokers is going to get stronger in the coming years. Specifically, the United Nations Populations Fund’s 2015 State of the World Population Report revealed that India has the world’s largest youth population, with 356 million 10–24 year-olds, followed by China (269 million), Indonesia (67 million), the U.S. (65 million), Pakistan (59 million), Nigeria (57 million), Brazil (51 million) and Bangladesh (48 million).
It’s the new era of the Champion Brand.

In the end, the Champion Brand survey unveiled evidence that the expectations for and scrutiny of global brands are increasing rapidly. To become a “champion,” companies will need to think about practices as well as products and actively engage with all stakeholders — young and old, and around the globe.

From all indications, the era of the stakebroker appears to be here to stay. And it will be the companies that demonstrate meaningful commitments to engaging with and improving society that will be able to stay in the game with them for the long haul.
Since ethics is an integral part of management, it is vital for managers to become comfortable with the language of ethics, and to understand how it is inextricable from the language of business. Each business decision can break or respect rules and norms, has consequences and effects on stakeholders, and shapes and is shaped by the character of managers and their corporations.

Guides to Help Avoid Rationalizations

Rationalizations are a common pitfall in decision-making. The term refers to the process of convincing oneself that a decision is fair and defensible, when in fact it merely serves one’s own interests or offers an easy way out. In these situations, when one is pressed by others about the decision, the reasons may not seem so compelling, even to the one offering the rationalization. There are no foolproof techniques for revealing rationalizations, but the following tests and methods have been used by philosophers and ethicists for some time.

Publicity Test

Could you defend your choice if it were made public (i.e., if it appeared on the cover of The Wall Street Journal, or if you had to explain it to your mother or your children)? This test helps to make you scrutinize your reasoning by raising tough questions that might otherwise be avoided. The prospect of having to face public disclosure helps to make people more critical of their assumptions and reasoning. Using this as a hypothetical check can help sort out whether your reasoning is sound and can be justified or is biased and self-serving.
Reversibility
Could you defend your reasoning if you were on the losing end of your decision? This test helps managers make decisions that are fair and can be defended in public. It also puts you in the position of the party who will suffer the negative consequences of a decision (i.e., being fired) and asks: Could you agree with and respect the reasons for the decision? The issue is not whether the person who is being fired approves of the decision. Reversibility instead asks whether the person on the losing end could respect the reasons for the decision.

Generalizability
Could you defend using this same reasoning in similar cases? This test also raises the issue of consistency and asks whether parties are willing to make a precedent out of their decision. Is the action you are contemplating, and the rationale behind it, something you would think others should do in similar circumstances?
Building Your Ethical Framework

Frameworks help managers to understand and analyze the moral dimensions of a given situation — they help identify key themes, raise important questions, and provide a basis for making informed and defensible decisions. An ethical framework is a set of questions that managers can use to get beyond their initial moral intuitions and clarify the relevant features of the case. The questions in a framework may force one to think about the issues from other perspectives or to look at rules that may apply. A good framework helps managers avoid rationalization of their initial moral intuition by looking at disconfirming data or differing opinions. It serves as a test to guide and refine moral intuition through a variety of cases. A good framework takes the best from your moral intuition and adds the pieces that may be missing. An ethical framework works best when it is complementary to, not separate from, other modes of business analysis and decision-making (i.e., from finance, accounting or marketing).

What follows is a list of the critical questions from ethical theory that can help managers make better decisions. It is important for each manager to select four to six key questions that form the heart of his or her framework.
and apply them across a variety of cases. When choosing your framework questions, think carefully about what values you personally stand for as well as where your potential moral blind spots are. At a minimum, a framework should examine the relevant moral issues by including questions from the three main ethical traditions (Actions, Agents and Consequences) instead of focusing narrowly on only one.

**Clarifying What You Know**

- What are the key facts in the situation?
- Do I have this information confirmed by independent sources or by people from the other side?
- Are there any vital pieces of information that I lack?
- How does the situation change if I alter my biases and assumptions?
- Which way of looking at the problem is most useful?
- If there are conflicts between your sense of integrity and the best decision for the firm, are there ways to alter how the decision is made or implemented to lessen or avoid the conflict?
- What are some relevant parallel cases?
- Who are the stakeholders? Who is affected by this issue and how? What does each party have at stake?
Clarifying the Decision-Making Process

- Is this my problem or should the decision be made by someone else?
- Do I have the organizational backing (i.e., formal authority) and support (i.e., informal backing) to decide?
- Whom can I reasonably include or get input from, given the circumstances?
- Whom should I formally include? Who has a right or deserves to be involved?
- Is there any documented organizational guidance?
- What action best meets my primary obligations?
- How much of a stake do I have in the decision and its aftermath?

Understanding Standards of Conduct

- Would this particular act or practice violate relevant standards of conduct?
- Are there ways to pursue our strategic interests without violating the standards of conduct?
- If the public finds out about this activity, will it lead to action against the firm (e.g., lawsuits)?
- Are the standards of conduct observed within the firm defensible and consistent with the standards of conduct of the society in which it operates?
- Does the action violate any human rights?
ETHICAL BUSINESS DECISIONS: THE FRAMEWORK

• What action best meets established moral guidelines and common sense (promise-keeping, respect for others, refraining from lying and cheating, fairness and non-maleficence)?

• What action meets legal obligations?

Understanding Character and Virtue

• What character traits do the firm or managers need to be successful over time?

• To what extent do these actions reflect the character traits that the firm espouses? Are they the basis for excellent organizational performance over time?

• To what extent is this problem a result of a poor relationship (e.g., bad communication)?

• Could improvements in how the firm communicates with and treats employees or other stakeholders improve the long-term prospects for the firm?

• What decision can I live with?

• What decision will allow me to live better with others?

• Which options are more likely to help me sleep at night six months and two years down the road?
Clarifying Consequences

- Which purposes are most important? Are there any clear priorities among stakeholder claims?
- Which actions best realize the key purposes of the firm?
- Will certain stakeholders be especially harmed? Will they feel negatively toward the firm or seek to hurt the firm?
- Are there any natural alliances among key stakeholders that can be developed?
- Which action is likely to be effective?

Avoiding Rationalization

- Could you defend your choice if it were made public (i.e., if it appeared on the cover of *The Wall Street Journal*, or if you had to explain it to your mother or your children)?
- Could you defend your reasoning if you were on the losing end of your decision?
- Is the action you are contemplating, and the rationale behind it, something you would think others should do in similar circumstances?

This material is excerpted from Darden Professors Harris, Parmar and Wicks’ technical note *Moral Theory and Frameworks* (Darden Business Publishing).
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