

Understanding Business Ethics and Social Responsibility

chapter # 2

Introduction

- In this chapter, we'll look at ethics and social responsibility—
 - what they mean
 - how they apply to environmental issues and to a firm's relationships with its customers, employees, and investors.
 - approaches to social responsibility
 - steps businesses must take to implement social responsibility programs

learning objectives

- 1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.*
- 2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.*
- 3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.*

learning objectives

- 4. Identify four general approaches to social responsibility and note the role of social responsibility in small business.*
- 5. Explain the role of government in social responsibility in terms of how governments and businesses influence each other.*
- 6. Discuss how businesses manage social responsibility in terms of both formal and informal dimensions and how organizations can evaluate their social responsibility.*

Ethics in the Workplace

- **Ethics**
 - beliefs about what is right and wrong or good and bad in actions that affect others
- **Business ethics**
 - refers to ethical or unethical behaviors by employees in the context of their jobs

Ethics in the Workplace (cont.)

- **Ethical behavior**
 - behavior that conforms to individual beliefs and social norms about what's right and good
- **Unethical behavior**
 - behavior that conforms to individual beliefs and social norms about what is defined as wrong and bad

Business and Managerial Ethics

- **Managerial Ethics**
 - standards of behavior that guide individual managers in their work

Behavior toward Employees

Behavior toward the Organization

Behavior toward Other Economic Agents

Assessing Ethical Behavior

1. Gather the relevant factual information
2. Analyze the facts to determine the most appropriate moral values
3. Make an ethical judgment based on how right or wrong the proposed activity or policy is.

Ethical Norms

1. Utility

- Does a particular act optimize the benefits to those who are affected by it? (That is, do all relevant parties receive “fair” benefits?)

2. Rights

- Does it respect the rights of all individuals involved?

Ethical Norms (cont.)

4. Justice

- Is it consistent with what's fair?

5. Caring

- Is it consistent with people's responsibilities to each other?

Model of Ethical Judgment Making

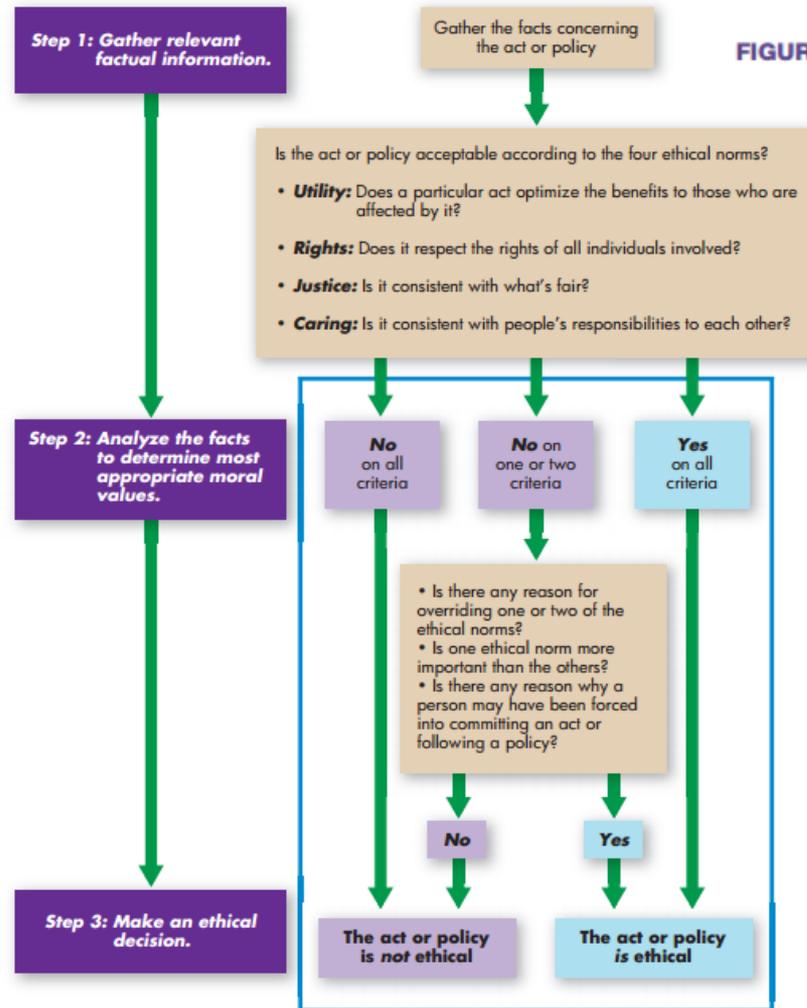


FIGURE 2.1 Model of Ethical Judgment Making

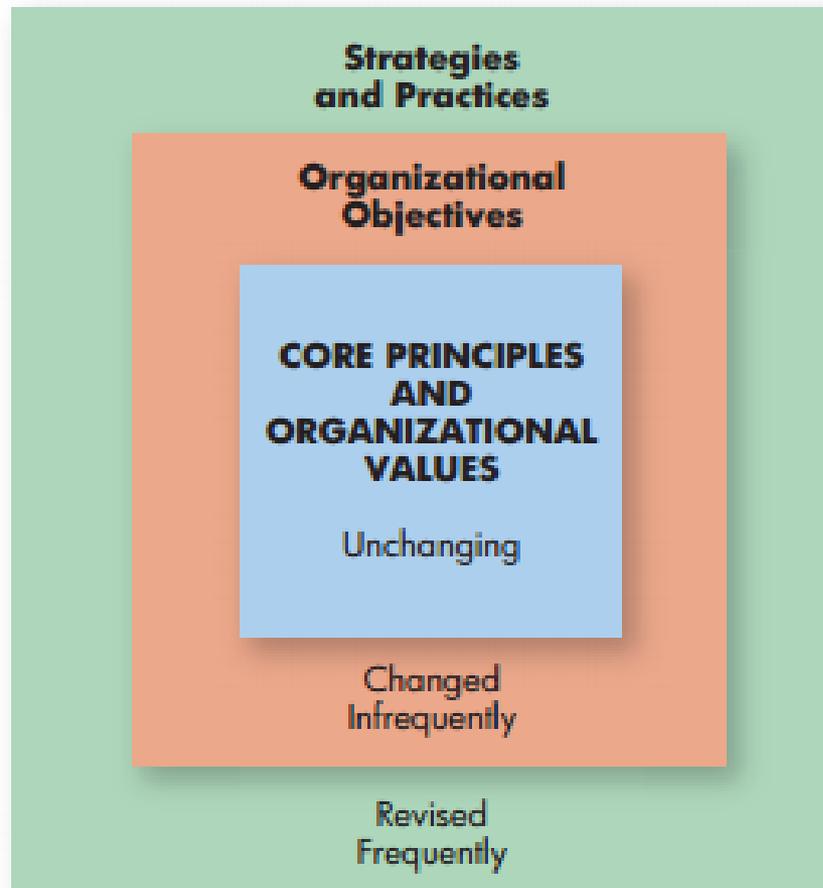
Company Practices and Business Ethics

Two of the most common approaches to formalizing top management commitment to ethical business practices:

- Adopting written codes
- Instituting ethics programs

Core Principles and Organizational Values

FIGURE 2.2 Core Principles and Organizational Values



Social Responsibility

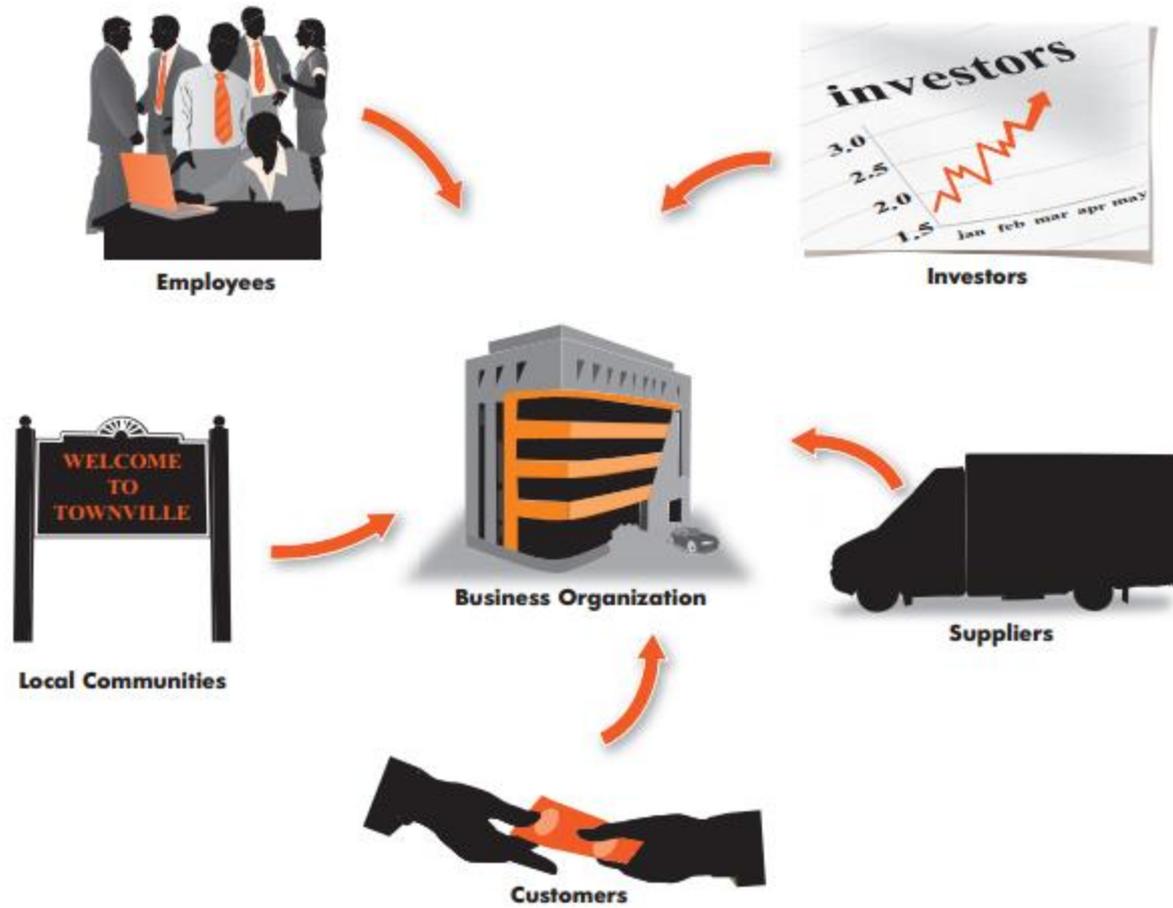
- **Social responsibility**
 - refers to the overall way in which a business attempts to balance its commitments to relevant groups and individuals in its social environment

Social Responsibility (cont.)

- **Organizational Stakeholders**
 - those groups, individuals, and organizations that are directly affected by the practices of an organization and who therefore have a stake in its performance

Major Corporate Stakeholders

FIGURE 2.3 Major Corporate Stakeholders



The Stakeholder Model of Responsibility

Most companies that strive to be responsible to their stakeholders concentrate first and foremost on five main groups:

- Customers
- Employees
- Investors
- Suppliers
- Local communities where they do business

The Stakeholder Model of Responsibility

(cont.)

- **Customers**
 - Treat customers fairly and honestly
- **Employees**
 - Treat employees fairly and respect their dignity and basic human needs
- **Investors**
 - Follow proper accounting procedures; provide information to shareholders about financial performance

Responsibility toward Customers

- **Consumer rights**

- Consumerism – social activism dedicated to protecting the rights of consumers in their dealings with businesses

- **Unfair pricing**

- Collusion – two or more firms collaborate on such wrongful acts as price fixing
- Price gouging

Responsibility toward Employees

- Provide opportunities to balance work and life pressures and preferences
- Help employees maintain job skills
- Treat terminated or laid-off employees with respect and compassion

Responsibility toward Employees (cont.)

- A company that provides its employees with equal opportunities without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities

The Stakeholder Model of Responsibility

- **Suppliers**
 - Create mutually beneficial partnership arrangements with suppliers
- **Local and International Communities**
 - Involvement in programs and charities

Contemporary Social Consciousness

- **The Concept of Accountability**
 - The expectation of an expanded role for business in protecting and enhancing the general welfare of society

Responsibility toward the Environment

- Air pollution
- Water pollution
- Land pollution
 - Toxic waste disposal
 - Recycling

Consumerism

- **Consumerism**
 - a form of social activism dedicated to protecting the rights of consumers in their dealings with businesses
- **Collusion**
 - illegal agreement between two or more companies to commit a wrongful act

The Elements of Green Marketing

table 2.1 The Elements of Green Marketing

- **Production Processes** Businesses, such as Ford Motors and General Electric, modify their production processes to limit the consumption of valuable resources such as fossil fuels by increasing energy efficiency and reducing their output of waste and pollution by cutting greenhouse gas emissions.
- **Product Modification** Products can be modified to use more environmentally friendly materials, a practice S. C. Johnson encourages with its Greenlist of raw materials classified according to their impact on health and the environment. Committed to only using the safest materials on this list, S. C. Johnson eliminated 1.8 million pounds of volatile organic compounds from its glass cleaner Windex.¹⁶
- **Carbon Offsets** Some companies are committed to replenishing, repairing, or restoring those parts of the environment that are damaged by their operations, especially those that produce carbon dioxide (CO₂). In 2007, Volkswagen began a program of planting trees in the so-called VW Forest in the lower Mississippi alluvial valley to offset the CO₂ emissions of every car they sell.¹⁷
- **Packaging Reduction** Reducing and reusing materials used in packaging products is another important strategy of green marketing, which Starbucks has pioneered. In 2004 the FDA gave the coffee retailer the first-ever approval to use recycled materials in its food and beverage packaging. Starbucks estimates that using cups composed of 10 percent recycled fibers reduces its packaging waste by more than 5 million pounds per year.¹⁸
- **Sustainability** Using renewable resources and managing limited resources responsibly and efficiently are important goals for any business pursuing a green policy. For example, Whole Foods Market is committed to buying food from farmers who use sustainable agriculture practices that protect the environment and agricultural resources, such as land and water.

Consumer Bill of Rights

FIGURE 2.4 Consumer Bill of Rights



Responsibility toward Investors

- **Insider trading**
 - using confidential information to gain from the purchase or sale of stocks.
- **Misrepresentation of finances**

Approaches to Social Responsibility

FIGURE 2.5 Spectrum of Approaches to Corporate Social Responsibility



Approaches to Social Responsibility (cont.)

- **Obstructionist Stance**

- involves doing as little as possible and may involve attempts to deny or cover up violations

- **Defensive Stance**

- company meets only minimum legal requirements in its commitments to groups and individuals its social environment

Approaches to Social Responsibility (cont.)

- **Accommodative Stance**
 - a company, if specifically asked to do so, exceeds legal minimums in its commitments to groups
- **Proactive Stance**
 - a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment

Social Responsibility and the Small Business

- For small businesses, ethical issues are questions of individual ethics
- But in questions of social responsibility, they must ask themselves if they can afford a social agenda

Top 25 Corporate Foundations

table 2.2 Top 25 Corporate Foundations

Rank	Name/(state)	Total Giving (\$)	As of Fiscal Year End Date
1	Sanofi-aventis Patient Assistance Foundation (NJ)	392,778,999	12/31/2010
2	Novartis Patient Assistance Foundation, Inc. (NJ)	239,531,453	12/31/2010
3	The Bank of America Charitable Foundation, Inc. (NC)	197,954,354	12/31/2010
4	The Wal-Mart Foundation, Inc. (AR)	164,588,396	1/31/2011
5	The JPMorgan Chase Foundation (NY)	133,757,626	12/31/2010
6	GE Foundation (CT)	112,221,740	12/31/2010
7	Wells Fargo Foundation (CA)	107,542,374	12/31/2011
8	ExxonMobil Foundation (TX)	72,154,563	12/31/2010
9	Citi Foundation (NY)	63,573,500	12/31/2010
10	Verizon Foundation (NJ)	59,365,756	12/31/2010
11	The Coca-Cola Foundation, Inc. (GA)	56,569,252	12/31/2010
12	The PNC Foundation (PA)	54,221,909	12/31/2011
13	Johnson & Johnson Family of Companies Foundation (NJ)	49,556,298	12/31/2009
14	Intel Foundation (OR)	48,108,474	12/31/2010
15	The Merck Company Foundation (NJ)	47,673,821	12/31/2010
16	MetLife Foundation (NY)	39,800,039	12/31/2010
17	The UPS Foundation (GA)	39,497,732	12/31/2010
18	Illinois Tool Works Foundation (IL)	36,176,325	12/31/2011
19	Caterpillar Foundation (IL)	35,807,264	12/31/2010
20	Lucasfilm Foundation (CA)	35,418,825	12/31/2010
21	Eli Lilly and Company Foundation (IN)	31,946,050	12/31/2010
22	BP Foundation, Inc. (TX)	31,248,005	12/31/2010
23	Abbott Fund (IL)	29,545,990	12/31/2011
24	The Bristol-Myers Squibb Foundation, Inc. (NY)	28,850,815	12/31/2011
25	Nationwide Insurance Foundation (OH)	28,260,551	12/31/2010

Source: 50 Largest Corporate Foundations by Total Giving, 2012 © 2013 The Foundation Center. Used by permission.

The Government and Social Responsibility

- Regulation
 - the establishment of laws and rules that dictate what organizations can and cannot do
 - Direct
 - Indirect

How Organizations Influence Government

- **Political Action Committees (PACs)**
 - special organizations created to solicit money and then distribute it to political candidates
- **Lobbying**
 - the use of persons or groups to formally represent an organization or group of organizations before political bodies

Formal Organizational Dimensions

- **Legal Compliance**
 - the extent to which the organization conforms to local, state, federal, and international laws
- **Ethical Compliance**
 - the extent to which the members of the organization follow basic ethical (and legal) standards of behavior

Formal Organizational Dimensions (cont.)

- **Philanthropic giving**
 - the awarding of funds or gifts to charities or other worthy causes

Evaluating Social Responsibility

- **Corporate Social Audit**
 - systematic analysis of a firm's success in using funds earmarked for meeting its social responsibility goals

Applying What You've Learned

1. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
2. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
3. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

Applying What You've Learned (cont.)

4. Identify four general approaches to social responsibility and note the role of social responsibility in small business.
5. Explain the role of government in social responsibility in terms of how governments and businesses influence each other.



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